Annual Report 1946

THE
NEW YORK CENTRAL RAILROAD COMPANY
230 Park Avenue, New York 17, N. Y.

Proxies for use at the annual meeting of stockholders on May 28, 1947, will be requested when the proxy statement is sent to the stockholders about April 19, 1947.

NEW YORK CENTRAL SYSTEM

Basic in the policy guiding the management of the New York Central

- *Progressively better service to the public at lowest possible cost*
- *Fair pay and good working conditions for employes*
- *A reasonable return upon the money invested in the Company's properties*

DIRECTORS

Harold S. Vanderbilt	New York	Malcolm P. Aldrich	New York
Bertram Cutler	New York	Raymond D. Starbuck	New York
Myron C. Taylor	New York	James A. Farley	New York
Robert F. Loree	New York	Carl P. Dennett	Boston
Edward B. Greene	Cleveland	Lawrence N. Murray	Pittsburgh
George Whitney	New York	Sidney C. Murray	Chicago
William E. Levis	Toledo	Gustav Metzman	New York
Alexander C. Nagle	New York		

OFFICERS

Gustav Metzman	*President*	New York
Raymond D. Starbuck	*Executive Vice President*	New York
Jacob Aronson	*Vice President and General Counsel*	New York
Martin J. Alger	*Vice President, Traffic*	New York
Richard E. Dougherty	*Vice President, Improvements and Development*	New York
Lawrence W. Horning	*Vice President, Personnel and Public Relations*	New York
Willard F. Place	*Vice President, Finance*	New York
Jesse L. McKee	*Vice President*	Chicago
Alfred H. Wright	*Vice President*	New York
Carl L. Jellinghaus	*Vice President*	Detroit
John J. Brinkworth	*Vice President and General Manager*	Cincinnati
Joseph M. O'Mahoney	*Secretary*	New York
Gustave H. Howe	*Treasurer*	New York
Edward A. Clancy	*Comptroller*	New York

THE NEW YORK CENTRAL RAILROAD COMPANY

MARCH 31, 1947

REVIEW OF THE YEAR:

The end of the year nineteen hundred and forty-six found the nation striving in the aftermath of war to readjust its economy to a peace time footing. That readjustment is far from complete. While the railroad industry has not had to face the direct problem of reconversion as it has affected so many of our major industries, the many dislocations incident to reconversion are reflected in the results of railroad operations for the year.

For the New York Central the year was one of "profitless prosperity." The volume of our freight traffic exceeded that of any previous peace time year. Passenger traffic was never greater except in the war years 1943, 1944 and 1945. Despite this record of performance, the year's operations resulted in a deficit of $10,449,268. Had we not been able to avail ourselves of "carry-back" tax credits, the amount of this deficit would have been $31,591,568.

We do not have to look far to find the reasons. The rates and fares which we were permitted to charge produced average revenue only 10 per cent above the 1939 level for transporting a ton of freight a distance of one mile, while the average revenue for transporting a passenger a distance of one mile declined almost one per cent. By contrast, the cost of wages, materials and supplies during the same period increased more than 50 per cent.

Throughout the year greatly disturbed labor conditions in most major industries, including the railroads, seriously interrupted the orderly flow of freight traffic, contributing to the difficulty of handling efficiently the great volume which made up the year's business. These same conditions, delaying the delivery of new passenger and freight cars and locomotives, as well as other materials urgently required in the improvement of plant and facilities, retarded the development of high standards planned in New York Central service.

* * * *

As the New York Central is engaged in a vital public service, it is the purpose of this report to present the story of our operations for the year 1946 for the information not only of stockholders, but of employes, security holders and the general public as well. All have an interest in what we do and how we do it. The holders of the stock and other securities and the employes have the more immediate interest in the financial results of our operations, since the stability of their investment or employment is affected. The public shares with them an interest in the policies which guide management. Inside the front cover of this report will be found a statement in this respect.

IN THE PUBLIC SERVICE

To serve the public adequately in the field of transportation is the principal objective of our business. Management recognizes that it must provide progressively better transportation at the lowest possible cost to the public. Our record over the years demonstrates adherence to this aim.

In 1946 the average revenue for transporting a ton of freight a distance of one mile was 1.02 cents, while the average revenue for transporting a passenger a distance of one mile was 2.10 cents.

During the last fifteen years the average revenue per ton mile for movement of freight has varied but slightly from year to year, the average for the full period being 9.24 mills. During this same period the average revenue per passenger mile has shown a downward trend from a high of 2.64 cents in 1932 to 2.10 cents in 1946, the average over the whole period being 2.07 cents. Contrasted with the costs which the public must pay for other things, this record is noteworthy.

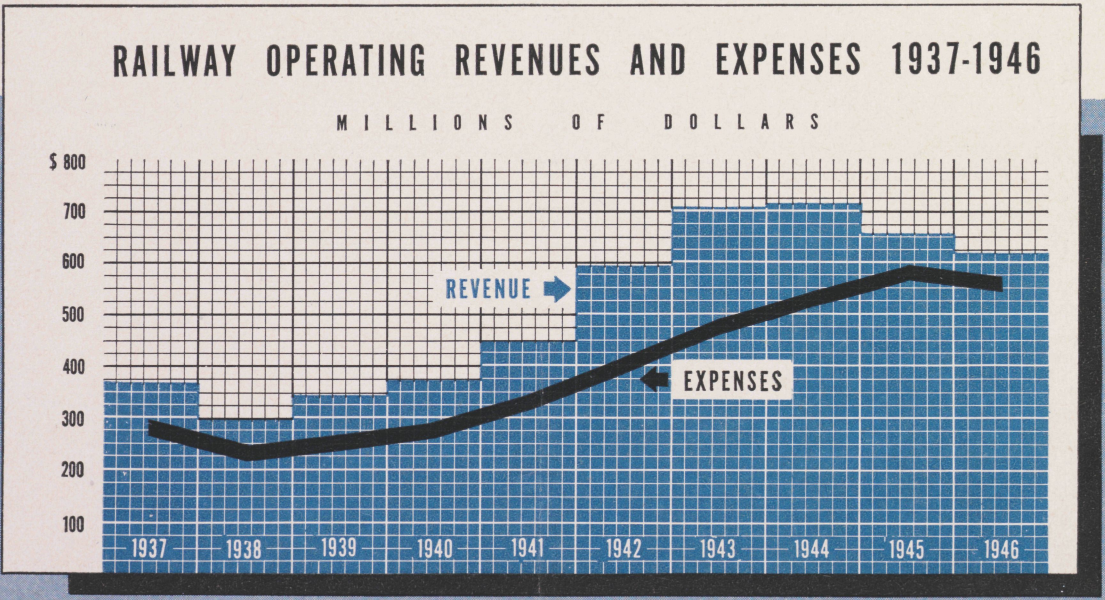
Freight traffic in 1946, measured by the number of tons moved one mile, totaled 40,215,577,150 ton miles, or 9.3 per cent less than in the previous year. Passenger traffic, measured by the number of passengers carried one mile, was 7,046,346,183 passenger miles, or 19.8 per cent less than in 1945.

Total operating revenues were 5.7 per cent lower than in 1945. The decline in freight revenue was 2.3 per cent and in passenger revenue 12.6 per cent. Other operating revenue declined 10.3 per cent.

Railway operating expenses were lower than in 1945 by $22,329,477, or 3.8 per cent. Operating expenses for 1945, however, included abnormally heavy amortization charges. Excluding amortization charges from the accounts for both years, other expenses of operation showed a net increase in 1946 of $33,370,896 after taking into account an increase of approximately $68,000,000 in the cost of labor and materials.

Railway tax accruals totaled $45,095,709, of which $22,801,651 were payroll taxes for retirement and unemployment benefits to employes. Recent amendment of the Federal act imposing these taxes substantially increases the rate payable in 1947. After credit amounting to $21,142,300, which we were enabled to take for a certain proportion of Federal income taxes paid in previous years, the net amount of railway tax accruals for the year was $23,953,409. No further credit in this respect will be available.

Throughout the years the aim of the New York Central has been toward ever higher standards of service to the public. The accomplishment of the huge wartime job of the railroads necessitated, however, some inconvenience



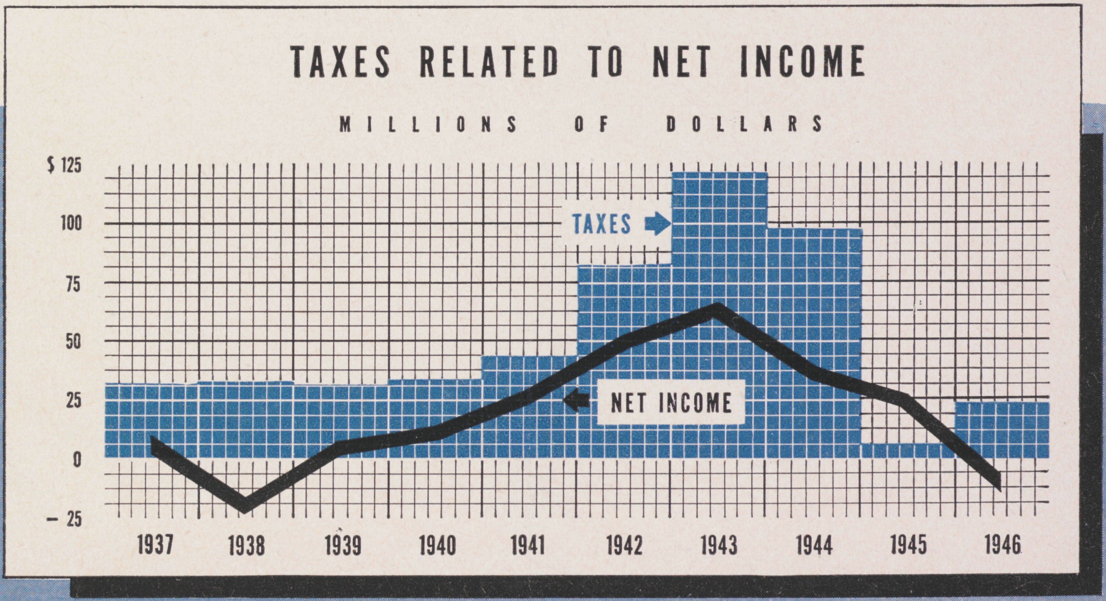
to the public and we are appreciative of the tolerance with which this was accepted.

Our plans are again pointed to newer and higher standards of public service. Following comprehensive studies of the situation, the New York Central as far back as 1944 began placing orders with manufacturers for new passenger train cars in its program to modernize its great fleet of passenger trains. Orders placed then and subsequently call for a total of 720 new cars, enough completely to re-equip 52 trains, at an estimated cost of $59,000,000. Included are sleeping cars, coaches, dining cars, lounge cars and baggage cars, all designed to give superior modern service. At the end of the year, 196 of these new coaches and 29 baggage cars had been received and placed in service.

Freight train cars available include many thousands of modern design and construction. Since the end of 1941, 14,027 new cars, costing $42,120,689 and having an aggregate carrying capacity of 814,584 tons, have been placed in service. Among these are boxcars equipped with high-speed trucks and brakes, loading devices and other features for expediting freight service, and hopper cars with protective covering for the economical movement in bulk of cement and other commodities usually packaged for shipment. At the end of 1946 we had on order with manufacturers 2,000 additional freight train cars, estimated to cost $8,740,000.

Important also to our higher standards in both passenger and freight service is our new modern motive power. During the last five years we have acquired 92 new steam road locomotives, 77 of which are designed for use in either high-speed passenger service or heavy-duty freight service; 131 Diesel-electric switching locomotives; 10 Diesel-electric locomotive units for road freight service and 12 for road passenger service, all at a total cost of $30,551,691. At the end of the year, we had on order 66 Diesel-electric road locomotive units for use in passenger and freight service and 1 Diesel-electric switching locomotive, estimated to cost $11,189,500.

In freight service, conditions beyond our control operated to prevent the most efficient utilization of cars available. The prolonged coal strike during the spring, followed by another late in the year, rendered idle for considerable periods of time cars ordinarily employed in the transportation of coal. Subsequent to these strikes we were called upon to move coal in abnormal volume. The strikes of marine and dock workers, which prevented the unloading of cars in port cities, tied up many units of equipment for a considerable period of time. Strikes in other industries likewise adversely affected the utilization of cars, as did the slowdown of loading and unloading incident to the more or less general adoption of the five-day week in industry. The movement of a bumper grain crop taxed the railroad's boxcar supply. Because of lack of sufficient elevator storage capacity to care for the increase in the size of the crop, this movement had to be accelerated.



MAKING THE WHEELS GO ROUND

The men and women who make up its organization give vitality to the New York Central. The Company's acceptance of the principle of collective bargaining dates back to 1875. It looks for mutual respect in the observance of obligations arrived at as a result of such bargaining and for the exercise of responsibility on both sides.

Only through understanding based on facts can the fullest benefits of collective bargaining be realized. It is our purpose, therefore, to present through reports such as this and other publications, information which will contribute to such understanding on the part of the 119,844 employes of the Company. We seek to bring to them a knowledge of our organization, its plant, equipment and other facilities, its capital structure, the financial results of its operations, the problems presented by public policy and the policies which guide management, and other pertinent information.

Many activities have been initiated by the Company to serve the interest of the men and women of the organization and for the betterment of its service. It has inaugurated training programs for new employes and to advance the skills of others. For training in specialized mechanical crafts apprenticeship courses are available at principal New York Central shops. Valuable in connection with the training of new locomotive firemen and in the solution of problems encountered by experienced firemen is a manual developed by technical experts to promote the most efficient firing of modern steam locomotive power. Other training courses sponsored by the Company include foremanship and supervisory training, telegraphy, ticket-selling methods, traffic and transportation control, air conditioning, and office management. To the end of 1946, more than 18,000 employes had availed themselves of these training courses.

FREIGHT TRAFFIC

	TONS 1946	TONS 1945
Coal, ore and other products of mines	91,733,283	93,340,427
Manufactures and miscellaneous	54,935,773	62,027,720
Wheat, grain, flour, and other products of agriculture	13,537,408	14,979,088
Lumber and other products of forests	4,511,654	3,725,373
Livestock and products of animals	3,711,965	3,862,422
LCL (Less-than-carload lots)	3,502,010	2,887,770
Total	171,932,093	180,822,800

PASSENGER TRAFFIC

	NUMBER 1946	NUMBER 1945
Coach	35,640,836	39,595,753
Pullman	4,385,110	4,664,318
Commutation	37,615,796	34,617,738
Total Passengers Carried	77,641,742	78,877,809
Total number of meals served	6,516,648	7,165,676

Another significant activity in recent years has been the establishment and expansion of public relations training in which employes have voluntarily participated in increasing and encouraging numbers. These discussion groups under the guidance of trained leaders seek to develop better understanding on the part of employes in their relations with one another, with the Company, and with the public we serve.

Well-equipped Young Men's Christian Association buildings have been provided at important points on the System where food and lodging at reasonable prices and recreational facilities are available to railroad people away from home.

The monthly publication, the Central Headlight, reports happenings on the railroad which concern employes individually or as groups. It publishes, also, informative articles about the Company's property and business.

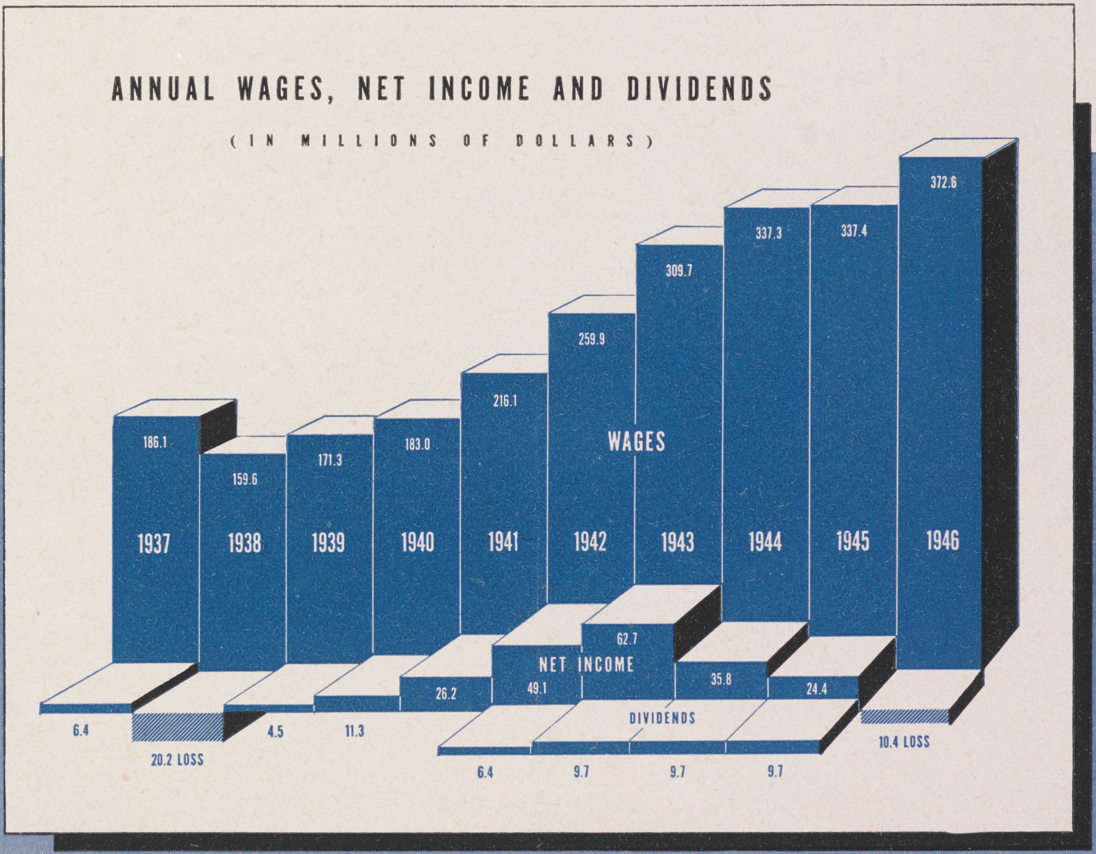
It is the practice of the Company to honor employes who in the course of their work display outstanding heroism. Valor medals were awarded during 1946 to three who, at the risk of their own lives, saved others:

Joseph A. Baccomo
Section Laborer, Beacon, N. Y.

Charles H. Frederick
Marine Fireman, Congers, N. Y.

Rocco Romeo
Floatman, Union City, N. J.

The employe's stake in the Company's business is a large one. This is reflected in the fact that in 1946 he received 57.3 cents of each dollar of its gross income. In addition, out of each such dollar, 3.6 cents were expended to meet payroll taxes for retirement and unemployment insurance benefits and to provide for supplemental pensions. Altogether the amounts paid to employes, to the Government for such benefits, and to provide for pensions absorbed 60.9 cents of every dollar of gross income.



NEW RETIREMENT PLAN

During the year the New York Central System Funded Contributory Retirement Plan for Salaried Employes and Officers, described in the Proxy Statement sent to the Stockholders under date of April 22, 1946, was put into effect, with certain modifications required to qualify the Plan under the Internal Revenue Code and Regulations.

November 1, 1946, was fixed as the date for commencement of member contributions under the Plan. Of approximately 6,500 officers and employes of the Company eligible to participate in the Plan, 6,022 have elected to become members. Under the Plan the former retirement age of 70 years is reduced, beginning in 1947, by half a year each year, so that in 1956, and thereafter, the retirement age will be 65 years.

The Plan is supplementary to the Federal Railroad Retirement System established by Act of Congress in 1937, which is based, as to computation of contributions and benefits, on compensation not in excess of $300 per month. Officers and salaried employes of the Company and of System companies electing to participate in the Plan receiving salaries in excess of $300 per month are eligible to participate in the new Plan and their contributions and benefits thereunder are based on the excess of their salaries over $300 per month. From November, 1946, to December, 1948, inclusive, their contributions will be at the rate of 3½ per cent of such excess and thereafter at the rate of 3¾ per cent thereof. The monthly retirement allowance payable under the Plan will be the sum of the following: 1 per cent of the member's average monthly compensation in excess of $300 for the ten years next preceding retirement, multiplied by his years of creditable service, plus 0.35 per cent of his monthly compensation in excess of $300 for each year of membership service in 1946, 1947 and 1948, plus 0.375 per cent thereof for each year of membership service thereafter. A disability allowance, similarly computed, is provided for totally incapacitated members having not less than 30 years of continuous service.

The costs of the Plan not provided for by the contributions of members are to be borne by the Company and other System companies participating therein. During the year 1946 the Company remitted to the trustee of the pension fund the sum of $13,000,000 on account of prior service accruals. This remittance, as well as the Company's normal annual contribution for the year 1946 heretofore estimated at the sum of $414,259, was based on 1945 statistics, which did not include the general salary increases which became effective during the year 1946.

So much of the retirement allowances under this Funded Retirement Plan as is attributable to Company contributions is substantially the same as would have accrued under the Company's unfunded voluntary pension system that has been in effect over a long period of years. That unfunded voluntary pension system is being continued with appropriate conforming amendments for employes not qualifying for or not joining the Funded Plan, subject to the Company's reserved right of modification and termination.

OUR GENERATOR— INVESTED CAPITAL

It is the money invested over the years by thousands of stockholders and bondholders that has paid for the plant and facilities which we know as the New York Central. Obviously, then, management must recognize that this money was invested with the expectation that it would earn a return for the investors.

The properties included in the operations of the New York Central Railroad represent a total investment of more than two billion dollars. This money has come from more than 50,000 holders of bonds, equipment trust certificates and similar obligations, who lent their money upon the promise of a fixed interest return, and from our 62,717 stockholders, who look for dividends upon their investment to be paid out of any net income remaining after all charges of the business are paid.

A return in the form of interest on money borrowed, represented by bonds, equipment trust certificates and similar securities, is an imperative obligation. An adequate return in the form of dividends to the stockholders is essential to preserve a credit standing which will encourage the further investment required from time to time to provide for the improvement and modernization of our properties.

The New York Central has always fully discharged its obligations to those investors from whom it borrowed money. The rates of interest paid for the use of this money have not been high. Currently the average annual

interest on our borrowings is at the rate of 3.7 per cent.

The steady reduction of the outstanding debt of the Company and its lessor companies continued in 1946, despite the necessity of financing sizable acquisitions of new equipment and further expenditures in connection with the grade crossing elimination program in New York State. The gross reduction during the year in bonds, equipment trust certificates and other capital obligations in the hands of the public and in amounts payable to the State of New York on account of grade crossing elimination, totaled $24,583,195. Partially offsetting this reduction were the issue and sale of $17,700,000 of equipment trust certificates, representing a part of the purchase price of new equipment, and further advances of $691,730 by New York State in connection with elimination of grade crossings. Thus, at the year's end, total debt represented by capital obligations outstanding of the Company and its lessor companies, was $849,222,067, compared with $855,406,532 at the end of 1945, a net reduction of $6,184,465.

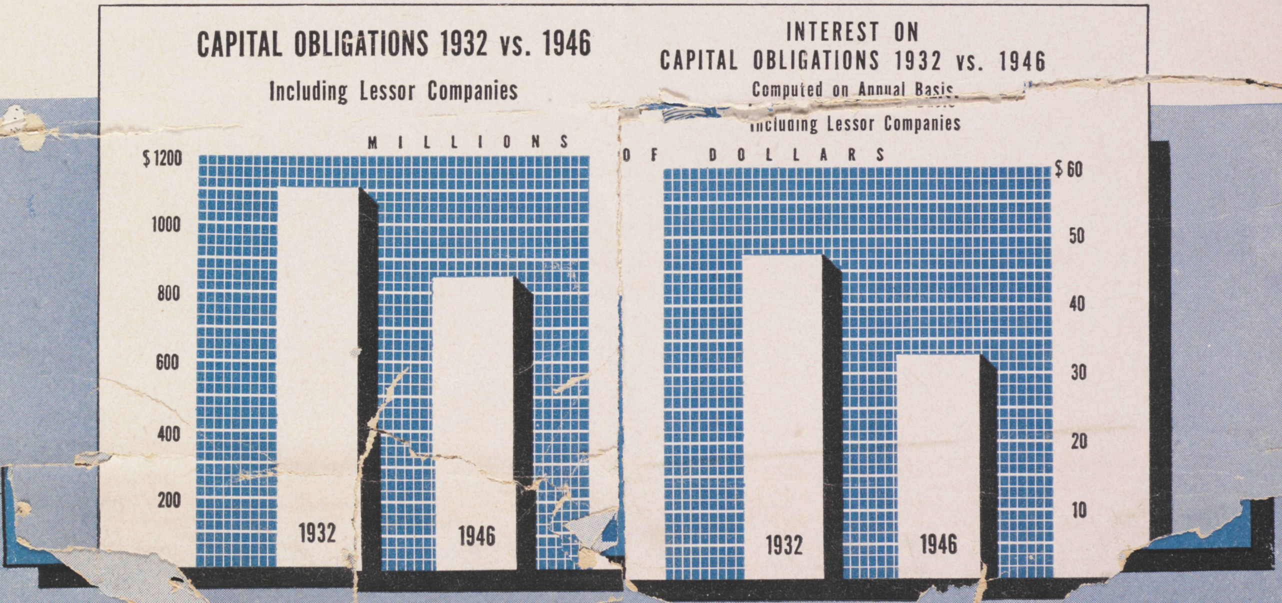
Since the end of 1932 there has been a net reduction of $259,585,886, or 23.4 per cent, in the total outstanding amount of capital obligations of the Company and its lessor companies. Interest, computed on an annual basis, on such obligations outstanding at the end of 1946, was $14,584,895 less than on those outstanding at the end of 1932, a reduction of 30.8 per cent.

The stockholders of the Company in many years have failed to receive any dividends whatever. The total amount paid to them in dividends since 1931 would be equal to a return of only three-tenths of one per cent per annum upon the investment in capital stock plus the accumulated surplus which has been retained in the business.

It is quite apparent from the record that the benefits growing out of the large sum of money invested in the New York Central have accrued largely to the public in low-cost transportation and to employes in better wages and working conditions. On the other hand, the meagre return to the stockholders suggests strongly the need for a better balance in this respect. Public policy largely governs this situation.

OUR PLANT AND TOOLS

Management recognizes that it is essential that road, equipment and all other facilities must be developed progressively to meet modern standards. In pursuance of this policy it has in the past inaugurated and carried out successive programs of improvement. Since 1920, following the end of Federal control after World War, more than a billion dollars has been spent for improvements. A further program now under way and contemplated calls for a substantial expenditure for improve-



Duluth
Superior
St. Paul
Minneapolis
MINN.
WISCONSIN
IOWA
ILLINOIS
MISSOURI
MICHIGAN
INDIANA
OHIO
KENTUCKY
WEST VIRGINIA
ONTARIO
Lake Michigan
Lake Huron
Lake Erie
Georgian Bay
Saginaw Bay
Green Bay
Lake Winnebago
Houghton Lake
Mississippi River
Missouri R.
Wisconsin River
Illinois River
Wabash River
Ohio River
Grand R.
Muskegon River
Menominee River
Maitland R.
St. Clair L.
Kentucky Res.
Eau Claire
Marshfield
Green Bay
Oshkosh
Fond du Lac
La Crosse
Elroy
Madison
Milwaukee
Racine
Janesville
Dubuque
E. Dubuque
Rockford
Clinton
E. Clinton
Mannheim
Franklin Park
Chicago
Indiana Hbr.
Gary
Hammond
Gibson
Aurora
Davenport
Rock Island
Joliet
Matteson
Zearing
Ladd
Churchill
Depue
Granville
Seneca
Lostant
Streator
Dwight
Reddick
Kankakee
Momence
Bradley
Galesburg
Peoria
Pekin
Bloomington
Farmer City
Champaign
Urbana
Danville
Springfield
Chrisman
Paris
Charleston
Mattoon
Pana
Shelbyville
Marshall
Litchfield
Hillsboro
East Alton
Alton
Warrenton
St. Louis
E. St. Louis
Granite City
Labadie
Cuba
Bismarck
Robinson
Lawrenceville
St. Francisville
Mount Carmel
Grayville
Carmi
Norris City
Harco
Sahara
Eldorado
Harrisburg
Parker
Cairo
Vincennes
Washington
W. Baden
French Lic.
Petersburg
Oakland City
Coe
Tecumseh
Evansville
St. Mary of the Woods
Terre Haute
Clay City
Greencastle
Crawfordsville
Lebanon
Lawrence
Indianapolis
Fairland
Trafalgar
Shelbyville
Columbus
Bloomington
N. Vernon
Jeffersonville
Louisville
Greensburg
Westport
Lawrenceburg
Aurora
Harrison
Valley Jc.
Cincinnati
Covington
Lexington
Winchester
Rushville
Batesville
Connersville
Brookville
Beeson
Lewisburg
Carlisle
Dayton
Franklin
Middletown
Osborn
Springfield
London
Troy
Urbana
Arcanum
Greenville
Savona
Lynn
New Castle
Shirley
Anderson
Alexandria
Muncie
Union City
Ansonia
Marion
Wabash
Celina
Sheldon
Sheff
Fowler
La Fayette
Schneider
Wheatfield
N. Judson
Porter
La Porte
Walkerton
South Bend
Warsaw
Ligonier
Goshen
Elkhart
Mishawaka
Niles
Dowagiac
Galien
Buchanan
Michigan City
Baroda
St. Joseph
Benton Harbor
South Haven
Allegan
Kalamazoo
Three Rivers
White Pigeon
Sturgis
Battle Creek
Marshall
Hooper
Richland Jc.
Richland
Springport
Albion
Jackson
Rives Jc.
Eaton Rapids
Lansing
Owosso
Hastings
Grand Rapids
Big Rapids
Baldwin
Cadillac
Traverse City
Boyne City
Boyne Falls
Petoskey
Mackinaw City
St. Ignace
Mackinac I.
Cheboygan
Indian River
Gaylord
Frederic
Grayling
Rasmus
West Branch
Gladwin
Pinconning
Midland
Bay City
Denmark Jc.
Bach
Saginaw
Vassar
Lapeer
Alpena
Detroit
Windsor
Ann Arbor
Ypsilanti
Manchester
Cement City
Lenawee Jc.
Jonesville
Hillsdale
Bankers
Litchfield
Hudson
Adrian
Morenci
Grosvenor
Monroe
Toledo
Millbury Jc.
Auburn
Waterloo
Ft. Wayne
Bryan
Wauseon
Bowling Green
Paulding
Van Wert
Ohio City
St. Marys
Sidney
Bellefontaine
Kenton
Fostoria
Findlay
Vanlue
Carey
Tiffin
Berwick
Green Springs
Clyde
Port Clinton
Sandusky
Norwalk
Oberlin
Elyria
Wellington
Shelby
Crestline
Galion
Marion
Martel
Edison
Mount Gilead
Ridgeway
Delaware
Marysville
Centerburg
Columbus
Truro
Hebron
Fultonham
Zanesville
Philo
Muskingum
Thurston
Junction City
Shawnee
Corning
Palos
Glouster
Lathrop
Athens
Chillicothe
Pomeroy
Robson Jc.
Point Pleasant
Gallipolis
Portsmouth
S. Portsmouth
Limeville
Kenova
Huntington
Buffalo
Charleston
Hitop
Swiss
Gauley Bridge
Johnstown
Clearco
Jeter
Smithers
Deepwater Bridge
Meadow Creek
Williamson
Bluefield
Sulphur
Cleveland
S. Lorain
Berea
Collinwood
Marcy
Newton Falls
Ravenna
Alliance
Youngstown
Minerva
Painesville
Ashtabula
Andover
Pymatuning Res.
Latimer
Dougherty
Phalanx
Ferrona
Sharon
West Middlesex
New Castle
Ellwood City
Wampum
Beaver Falls
Beaver
Aliquippa
Kobuta
Coraopolis
Pittsburgh
Smithfield
Dillonvale
Wheeling
Monongahela
Fayette City
Brownsville
Morgantown
Fairmont
Titusville
Oil City
Franklin
Polk
Erie
Westfield
Toronto
Hamilton
Kitchener
Beeton
Bala
London
Waterford
St. Thomas
Aylmer
Port Maitland
Port Colborne
Courtright
Petrolia
Oil City
Eddys
Amherstburg
Essex
Comber
Sea Cliff Park
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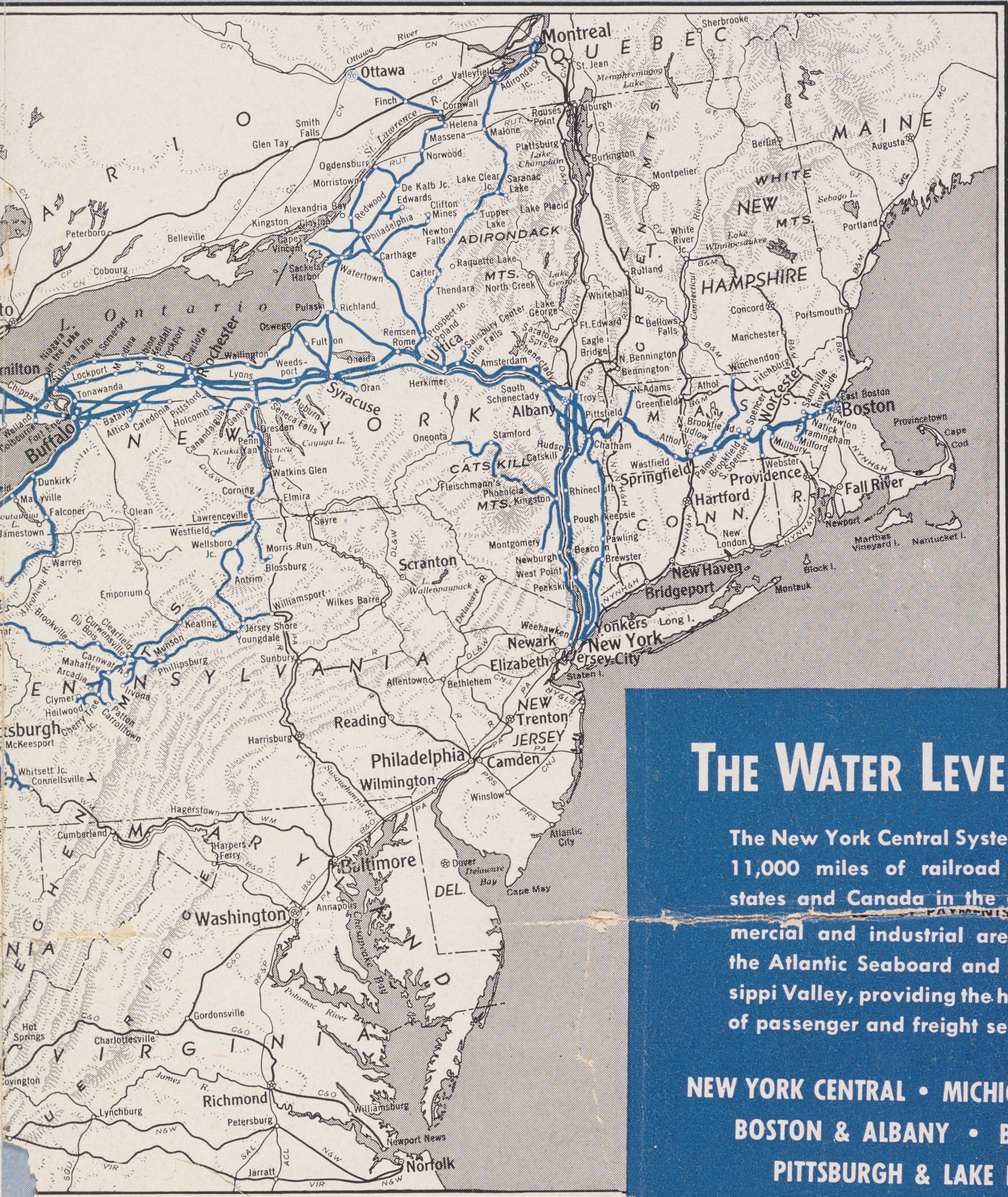


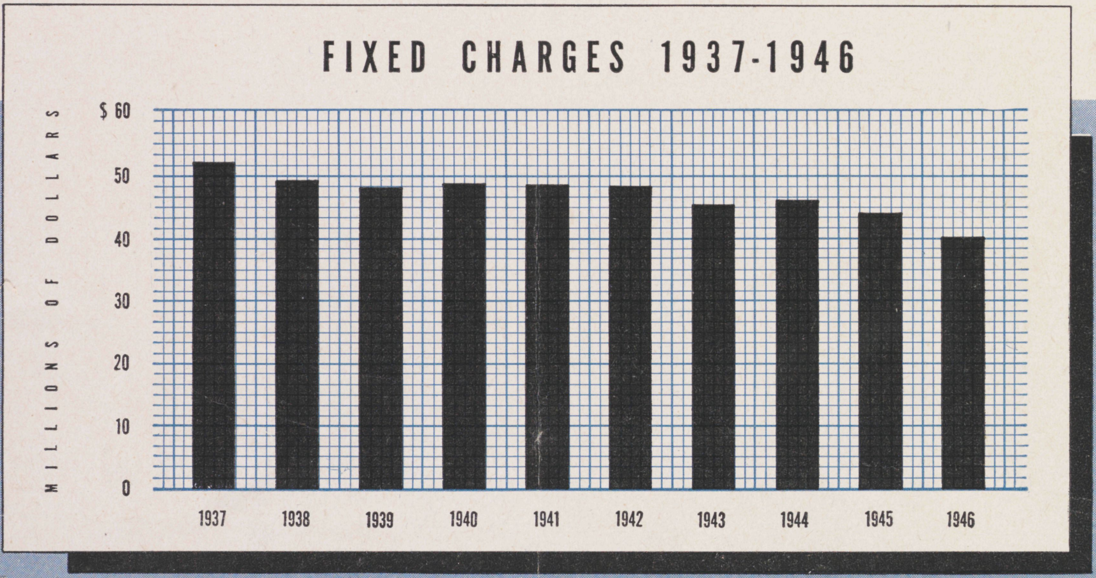
THE WATER LEVEL ROUTE

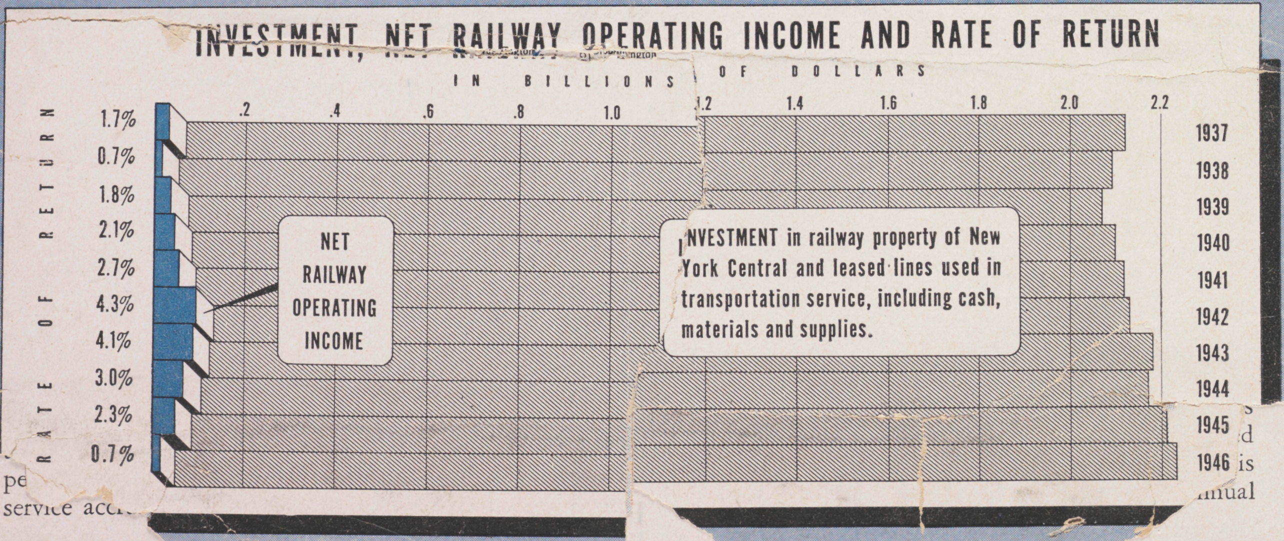
The New York Central System operates 11,000 miles of railroad in eleven states and Canada in the great commercial and industrial area between the Atlantic Seaboard and the Mississippi Valley, providing the highest type of passenger and freight service.

NEW YORK CENTRAL • MICHIGAN CENTRAL
BOSTON & ALBANY • BIG FOUR
PITTSBURGH & LAKE ERIE

NEW YORK CENTRAL SYSTEM

ments, including extensive additions of modern passenger and freight train cars and motive power, as well as important improvements of roadway and structures, such as the elimination of curves and other "bottlenecks" on the railroad, important bridge reconstruction, improved coal and ore facilities at Toledo, Ohio, and other improvements designed to promote efficiency and modernization.





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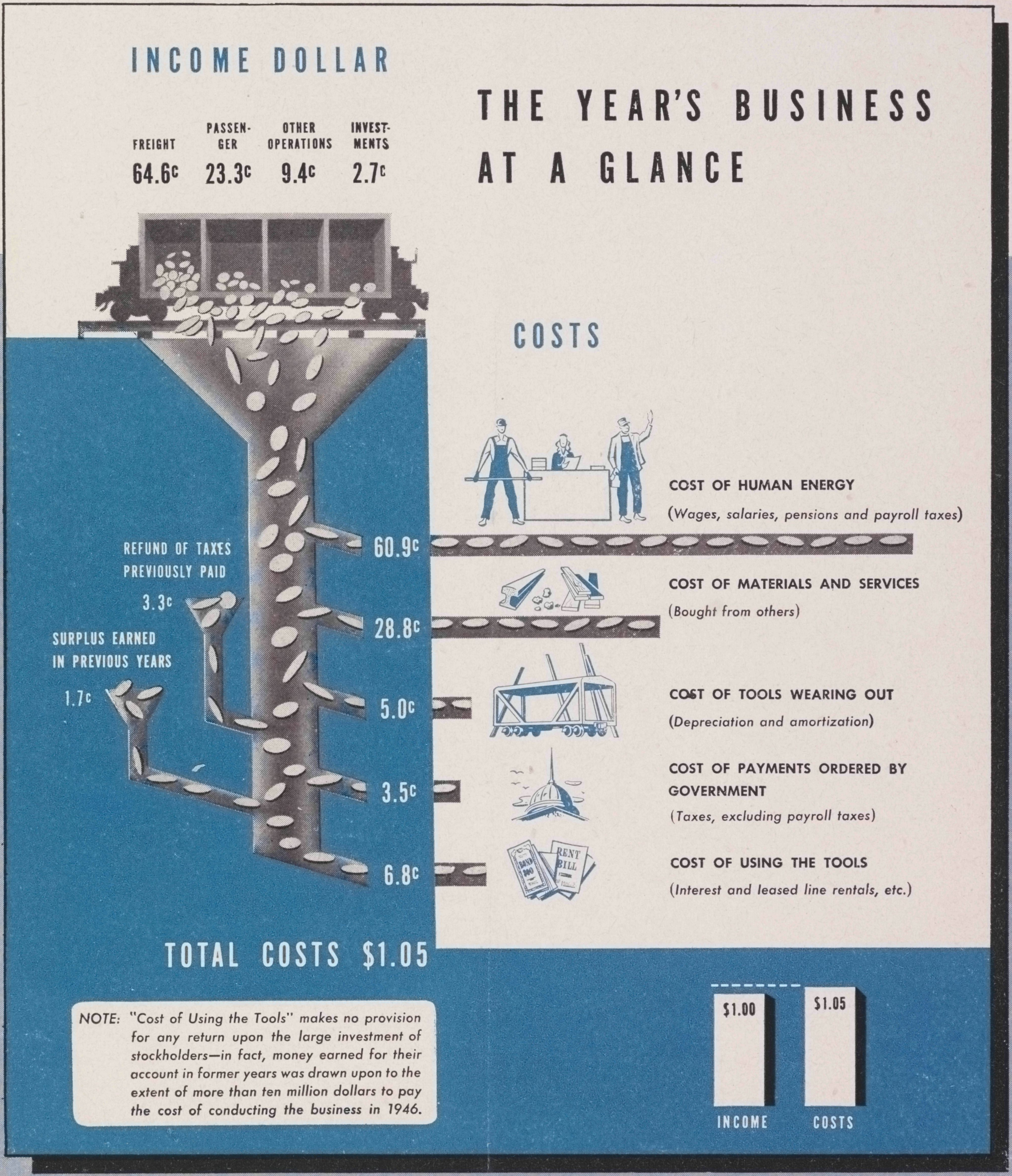


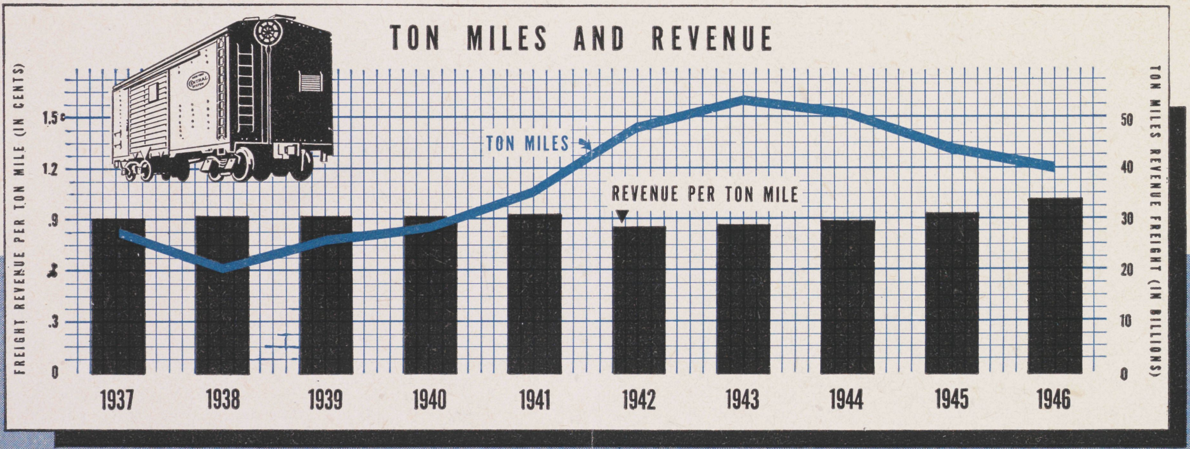
INCOME DOLLAR
THE YEAR'S BUSINESS AT A GLANCE
FREIGHT 64.6c
PASSENGER 23.3c
OTHER OPERATIONS 9.4c
INVESTMENTS 2.7c
COSTS
REFUND OF TAXES PREVIOUSLY PAID 3.3c
SURPLUS EARNED IN PREVIOUS YEARS 1.7c
60.9c
COST OF HUMAN ENERGY
(Wages, salaries, pensions and payroll taxes)
28.8c
COST OF MATERIALS AND SERVICES
(Bought from others)
5.0c
COST OF TOOLS WEARING OUT
(Depreciation and amortization)
3.5c
COST OF PAYMENTS ORDERED BY GOVERNMENT
(Taxes, excluding payroll taxes)
6.8c
COST OF USING THE TOOLS
(Interest and leased line rentals, etc.)
RENT BILL
TOTAL COSTS $1.05
NOTE: "Cost of Using the Tools" makes no provision for any return upon the large investment of stockholders—in fact, money earned for their account in former years was drawn upon to the extent of more than ten million dollars to pay the cost of conducting the business in 1946.
$1.00
INCOME
$1.05
COSTS

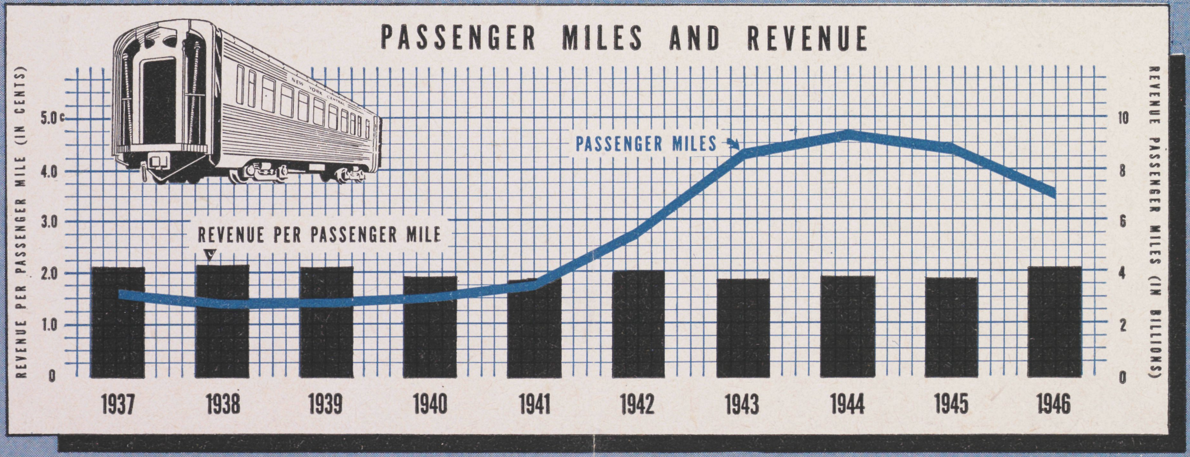
PUBLIC POLICY IN TRANSPORTATION

There is perhaps no other single factor affecting railroad operations as important at this time as public policy.

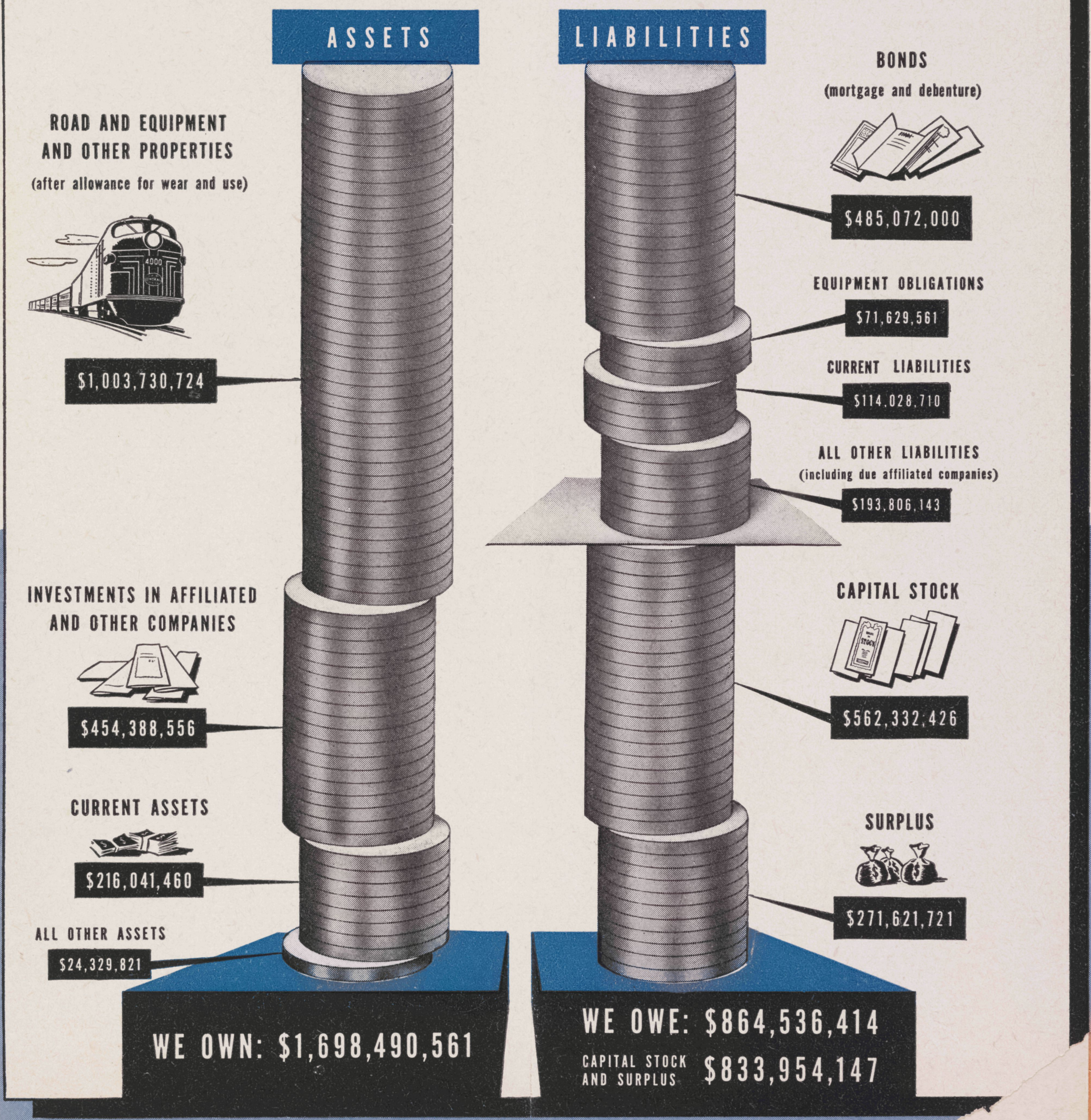
The rates and fares which we may charge for services are controlled by governmental authority. Wages, which absorb more than 50 per cent of our total revenues, are in effect controlled in much the same way, though by different governmental agencies. In many other ways what we do and how we do it is a matter of governmental regulation. This results often in the requirement that we continue operations that are economically unsound.

What we need, above all else, is equality of treatment for all forms of transportation in all respects. In other words, it is essential that Congress take appropriate action to effectuate the national transportation policy as expressed by it in 1940, so as to permit the railroads to compete on a basis of equality with other forms of transportation which are very substantially subsidized with public funds. The right-of-way, structures, equipment and all other facilities employed in the operation of our railroad were provided by private capital. We pay the full cost of operating our property, including compensatory rentals for properties we do not own. We pay taxes for the support of municipal and state governments as well as federal income taxes. In short, we pay our way. On the other hand, with the single exception of pipelines, other forms of transportation with which we must compete pay only a part of the cost of facilities required for their operation and do not pay compensatory





BALANCE SHEET AT A GLANCE



charges for the use of such facilities, nor do they pay comparable taxes for the support of general state and municipal governments. What they do not pay is provided by the other taxpayers, including the railroads. We do not ask to be relieved of any proper costs or charges. We contend, however, that equality of opportunity, in the American tradition, requires that our competitors should assume all the elements of cost that enter into the services they provide.

In the last Congress a resolution introduced by Honorable Clarence F. Lea, Chairman of the Committee on Interstate and Foreign Commerce of the House of Representatives, initiated a national transportation inquiry to develop information looking to the formulation of effective national policy to equalize competitive conditions in the transportation field. It is expected that the inquiry thus initiated will be carried forward in the present Congress, and we strongly urge that all who have an interest in the railroads—employes, stockholders and bondholders—inform and actively interest themselves in this important investigation.

Other important matters affecting the railroads, which will undoubtedly have consideration in the present Congress, include legislative action to confirm the right of the railroads to maintain cooperative organizations and arrangements for the joint handling of matters of common concern. This necessity has long been recognized by governmental authorities, particularly the Interstate Commerce Commission, as well as by shippers and carriers. Recently it has been contended by the Anti-Trust Division of the Department of Justice that acts and arrangements which long have been considered necessary and lawful under the Interstate Commerce Act are unlawful under the anti-trust laws. A bill to clarify this situation was introduced in the last Congress and approved by the House of Representatives, but failed to reach a vote in the Senate. A similar bill has been introduced and is under consideration in the present Congress.

Passed in the closing days of the last Congress, the so-called Crosser bill, making fundamental and far-reaching changes in the railroad retirement and unemployment insurance systems, was signed by the President and became law July 31, 1946. On the basis of anticipated employment in 1947, New York Central's payroll taxes are increased in excess of $7,500,000 by the provisions of this Act, to a total of approximately $30,000,000. The annual burden of these taxes is equal to about 75 per cent of the Company's fixed charges. It is more than double the total amount of reduction in annual interest charges resulting since 1932 from the Company's program of debt reduction.

THE FUTURE

Traffic prospects for 1947 are good. It is expected that the volume of freight traffic will continue at about the same high level experienced in 1946, with some decline, however, in passenger traffic. Revenues will be favorably influenced by the 17.9 per cent increase in freight rates which became effective January 1, 1947, and the continuance of the 10 per cent increase in passenger fares.

With new motive power and equipment, with improvements to plant and with new efficiencies, our whole organization is prepared to provide modern service which will, we believe, commend itself to the public.

During the year 1946 locations on the lines of the Company and its affiliated railroads were selected for 546 additional industrial plants. Many of these industries have constructed or plan to construct new plants, while others have acquired existing facilities heretofore idle. These new industrial plants, large and small, will constitute important sources of future traffic, estimated at approximately 205,000 cars annually.

Anticipated further stabilization of the economy of the country as a whole should be conducive to a normal, orderly flow of traffic over the railroads and thus contribute to more efficient, economical conduct of the business.

In the competitive field we are still faced with the disadvantage to the railroads arising from the continued subsidization of other transport agencies. The opportunity of the railroads to earn a reasonable return, even with the high level of traffic anticipated, is seriously impaired by continuance of these subsidies.

Governmental action to equalize competitive conditions in the transportation field is urgently needed. There appears to be a growing awareness on the part of the public of the importance of dealing with this situation constructively and it is hoped that corrective action will not be long deferred.

G Metzman

PRESIDENT

INCOME ACCOUNT

THE NEW YORK CENTRAL RAILROAD COMPANY

	1946	1945
RAILWAY OPERATING REVENUES:		
Freight	$409,199,396	$418,643,637
Passenger	148,109,502	169,444,180
Mail	15,150,635	14,506,546
Express	2,924,923	12,362,952
All Other	41,400,299	39,406,484
Total	$616,784,755	$654,363,799
RAILWAY OPERATING EXPENSES:		
Maintenance of Way and Structures (Note A)	$ 92,676,937	$107,722,599
Maintenance of Equipment (Note B)	132,566,900	175,072,390
Traffic	10,456,569	9,054,871
Transportation	290,364,318	260,458,406
General and All Other	32,286,769	28,372,704
Total	$558,351,493	$580,680,970
NET REVENUE FROM RAILWAY OPERATIONS	$ 58,433,262	$ 73,682,829
Operating Ratio	90.53	88.74
Railway Tax Accruals	23,953,409	6,423,158
Net Debits for Equipment and Joint Facility Rents	19,032,634	17,315,350
NET RAILWAY OPERATING INCOME	$ 15,447,219	$ 49,944,321
Other Income: (Note C)		
Miscellaneous Rent Income	$ 4,086,857	$ 4,495,427
Separately Operated Properties	2,493	516,530
Dividend Income	4,056,573	4,630,969
Income from Funded Securities	4,164,294	4,743,028
Miscellaneous	4,719,740	5,920,104
Total	$ 17,029,957	$ 20,306,058
TOTAL INCOME	$ 32,477,176	$ 70,250,379
Miscellaneous Deductions from Income	1,967,705	1,762,019
Income Available for Fixed Charges	$ 30,509,471	$ 68,488,360
Fixed Charges:		
Rent for Leased Roads and Equipment (Note C)	$ 18,998,372	$ 19,741,893
Interest on Funded Debt	21,273,929	21,838,397
Interest on Unfunded Debt	618,889	2,455,119
Amortization of Discount on Funded Debt	67,549	40,426
Total	$ 40,958,739	$ 44,075,835
NET DEFICIT TRANSFERRED TO EARNED SURPLUS	$ 10,449,268	$ 24,412,525*
Note A—Includes amortization and depreciation on roadway property.	$ 10,146,560	$ 13,015,668
Note B—Includes amortization and depreciation of equipment.	$ 20,464,425	$ 71,783,213
Also includes depreciation of power-plant machinery.	$ 860,008	$ 840,935
Note C—Included in other income and rent for leased roads are certain inter-company transactions representing credits and corresponding debits amounting to	$ 3,070,482	$ 3,225,577
Other income also includes items representing interest and dividends amounting to received on securities of and advances to terminal and other railroad companies whose properties are jointly used by this Company, as to the major portion of which a like amount was paid to those companies as rental and included in joint facility rents.	$ 1,455,980	$ 1,459,246

*Income

CONDENSED GENERAL BALANCE SHEET

THE NEW YORK CENTRAL RAILROAD COMPANY

December 31, 1946 and 1945

ASSETS

	1946	1945
INVESTMENTS:		
Road	$ 715,213,430	$ 709,012,198
Equipment	483,355,897	462,774,799
Improvements on Leased Property	128,001,102	127,227,310
Acquisition Adjustment, Donations and Grants	Cr. 8,598,938	Cr. 8,045,262
Depreciation and Amortization Defense Projects	Cr. 348,838,130	Cr. 335,882,943
Capital and Other Reserves	7,359,457	3,376,490
Miscellaneous Physical Property Less Depreciation	34,597,363	36,556,418
Affiliated Companies: (Stocks, Bonds, Notes and Advances)	407,130,940	403,166,778
Other Investments: (Stocks, Bonds, Notes and Advances)	47,257,616	47,597,920
Total	$1,465,478,737	$1,445,783,708
CURRENT ASSETS:		
Cash, Special Deposits and Temporary Investments	$ 124,176,744	$ 175,670,612
Materials and Supplies	41,726,568	39,979,055
Other Current Assets	50,138,148	57,565,722
Total	$ 216,041,460	$ 273,215,389
DEFERRED ASSETS AND UNADJUSTED DEBITS	$ 16,970,364	$ 15,710,224
Total	$1,698,490,561	$1,734,709,321

LIABILITIES

	1946	1945
Capital Stock, Outstanding (6,447,410 Shares without Par Value)	$ 562,332,426	$ 562,332,486
Mortgage Bonds	479,572,000	488,806,000
Debenture Bonds	5,500,000	5,500,000
Equipment Obligations	71,629,561	62,993,281
Amounts Payable to Affiliated Companies (Note A)	45,416,529	46,636,927
Current Liabilities (Note B)	114,028,710	123,430,747
Deferred Liabilities and Other Unadjusted Credits	142,449,362	139,930,852
Insurance Reserves	5,940,252	5,855,425
Unearned Surplus	25,838	7,124
Earned Surplus Appropriated	8,565,143	8,429,545
Earned Surplus Unappropriated (Note C)	263,030,740	290,786,934
Total	$1,698,490,561	$1,734,709,321

Note A—Comprises liability to lessor companies for which the New York Central is obligated to make settlement.

Note B—After deduction in 1946 of $23,254,712 and in 1945 of $17,417,756, representing estimated refunds of Federal taxes paid in prior years.

Note C—Includes $29,405,935 transferred from earned surplus accounts of companies consolidated January 1, 1915.

This balance sheet does not include the assets or liabilities of lessor, affiliated, terminal or other companies, nor the liability of The New York Central Railroad Company as guarantor or under leases or otherwise with respect to the securities or obligations of other companies.

EARNED SURPLUS ACCOUNT

THE NEW YORK CENTRAL RAILROAD COMPANY

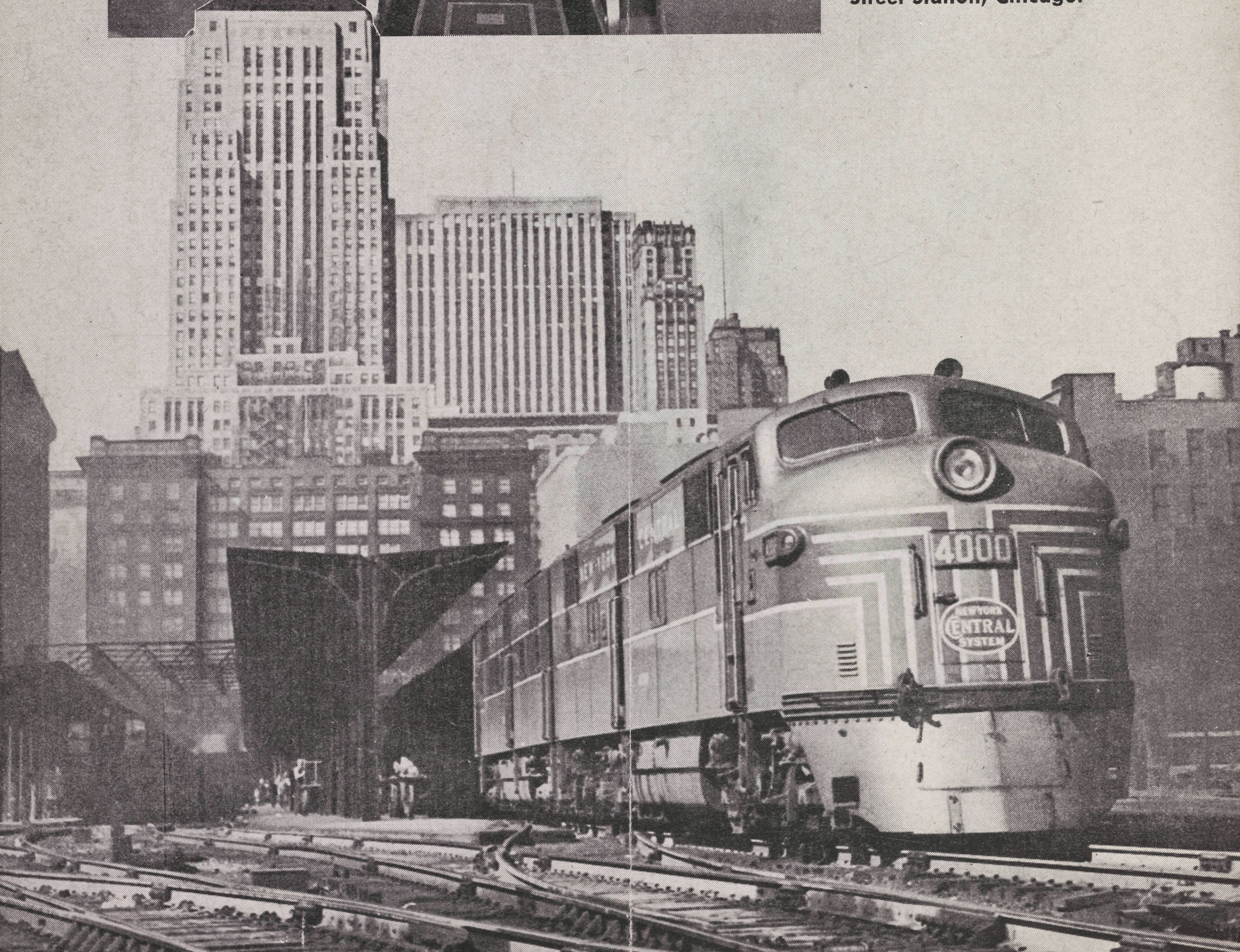
BALANCE TO CREDIT OF EARNED SURPLUS JANUARY 1, 1946		$290,786,934
ADDITIONS:		
Excess Over Cost of Principal Amount of Bonds Acquired	$ 901,157	
Profit from Sale of Property	885,332	
Sundry Items	225,756	2,012,245
		$292,799,179
DEDUCTIONS:		
Net Deficit for the Year 1946	$10,449,268	
Surplus Appropriated for Investment in Physical Property	131,515	
Prior Service Accrual - Funded Contributory Retirement Plan	18,000,000*	
Retirement of Road Property	874,351	
Service Loss on Leased Equipment Not Covered by Depreciation	154,712	
Sundry Items	158,593	29,768,439
BALANCE TO CREDIT OF EARNED SURPLUS DECEMBER 31, 1946		$263,030,740

*Of this amount $13,000,000 was paid to Trustee in 1946.

Of the total funded debt of The New York Central Railroad Company and its lessor companies outstanding on December 31, 1946, the following amounts, including amounts due the State of New York in connection with certain grade crossing eliminations, mature within the succeeding ten years.

Year	*Equipment Obligations*	*Bonds and Miscellaneous*	*Total*
1947	$10,672,622	$ 558,372	$11,230,994
1948	10,605,825	558,372	11,164,197
1949	10,571,825	558,372	11,130,197
1950	9,634,089	5,150,372	14,784,461
1951	8,525,280	6,010,372	14,535,652
1952	5,935,280	15,568,372	21,503,652
1953	$ 5,564,640	$ 3,553,372	$ 9,118,012
1954	4,950,000	558,372	5,508,372
1955	3,400,000	558,372	3,958,372
1956	1,770,000	18,808,372	20,578,372
Total	$71,629,561	$51,882,720	$123,512,281

(Left) Inside one of Central's new streamlined, air-conditioned coaches . . . part of world's largest fleet of post-war luxury coaches. *(Below)* One of the new passenger Diesel locomotives on the head end of the 20th Century Limited, LaSalle Street Station, Chicago.



THE following editorial is reprinted from the March, 1947, issue of the "Central Headlight," a newspaper published monthly for the men and women of the New York Central Railroad Company:

Post-war Contrasts, 1922-1946

TO do the transportation job that the future demands, the railroads must continue to modernize their lines, including equipment. This will require funds.

In our system of private enterprise these funds must come from investors who feel that they will get a reasonable return for use of their cash. Such investor confidence must depend to a large extent upon the governmental attitude toward industry.

For a century the railroads have been and are today the backbone of the nations' transportation system. Under private management they have expanded steadily and in recent years have reached new peaks of efficiency in handling the huge commerce of the United States.

However, the railroads have been caught in the backwash of conflicting political ideologies growing in part out of World War II, which the roads did so much to win.

Lack of active public and governmental recognition of the essential need of a fair return on the capital invested in our railroads is leading private capital to become wary of rail investments. For this reason the progress of the roads in the immediate future is endangered. The situation calls for speedy correction.

Expansion Based on Transport

Great expansion of the industry and commerce of the United States in the next several years is expected. This expansion will depend largely upon efficient and cheap transportation, both of which the railroads can provide if funds are made available to them for improvements.

A program of modernization would be in the interest of the entire nation, including the railroad employes. In the long run it would mean increased wages and cheaper rates and a higher standard of living. In addition, World War II indicated that an efficiently operated railroad sytsem is essential for national security.

The railroad managements during the war period made plans for improved track and modern freight and passenger cars and more efficient power units. So far as possible, these plans are being carried out. Their full fruition depends upon the ability of the roads to obtain the necessary funds.

Help After World War I

The period shortly after World War I is a good guide to the value of railroad improvement to a country. Emerging from that conflict, the roads, under federal government control, were in poor condition. Their inability to move expanding commerce efficiently was threatening the nation's economy. The federal government realized this and in 1920 turned the railroads back to their owners.

Released from government control, rail management soon set in motion the greatest modernization program ever undertaken by this or any other country. The executives were encouraged by government authorities, who did what they could to re-establish the faith of investors in railroad securities.

The Interstate Commerce Commission ordered an increase in both passenger and freight rates. The Transportation Act of 1920, fixing the return on investment as 5¾ per cent and permitting consolidations, was enacted.

While the 5¾ per cent return never was realized, the action of the public authorities was definitely helpful to the railroads. Within a few years they obtained from private capital about ten billion dollars for rehabilitation.

The added capital enabled the roads to handle efficiently the huge traffic of World War II. This achievement was registered without aid from the United Sates Treasury. In fact, during the war the railroads paid in federal taxes more than four billion dollars.

Second War Brings Change

Emerging from the latest conflict, the lines found the attitude of public authorities quite different from that after World War I. Pursuant to the procedure of the Railway Labor Act, large wage increases, retroactive for five months, became effective.

To compensate for this added expense and other higher costs of operation, the lines asked for a rise in freight rates. Except for some measure of intermediate relief effective during the last six months of 1946, the increased freight rates authorized were not made effective until January 1, 1947, or a year after the higher wage scale.

The Congress that sat in 1946 also passed the Crosser Act. That measure increased from 3½ per cent to 5¾ per cent the tax payable by employer and employe alike on rail payrolls for social security of employes. It continued, in addition, a tax of 3 per cent upon the employer alone for unemployment insurance. For the same purposes other industries are taxed at sharply lower rates.

Growth of the New York Central

An important part of the nation's transportation network is the New York Central Railroad. Its progress in the last twenty-four years resulted largely from a modernization program after World War I. That work brought considerable benefits to employes and the public, as a brief analysis will make apparent.

At the end of 1922 the New York Central, as then constituted, had invested in road and equipment $1,152,688,220, or an average of $12,828 for each employe. By the end of 1946, including the capital investment of its leased properties, the total investment in the properties operated by the New York Central had almost doubled. The total was $2,161,415,781, or $18,035 an employe.

Of this increased investment in the intervening twenty-four years more than $650,000,000 was new funds. The expanded operations brought a rise in the average number of employes from 89,860 to 119,844. The amount paid to each moved up from an average of $1,764 in 1922 to $3,109 last year, with $190 additional per employe for payroll taxes paid by the Company in 1946. Furthermore, through the availability of improved equipment and facilities provided by this new capital, the number of hours worked each week by an employe was reduced sharply.

Public Benefit

The public benefited from the expansion program through lower freight and passenger rates. In 1922 the railroad received an average of 1.13 cents for each ton of freight carried a mile; in 1946 an average of 1.02 cents a ton-mile. The average revenue for carrying a passenger a mile declined from 3.08 cents in 1922 to 2.10 cents in 1946.

The increased investment in the twenty-four years benefited employes, shippers and travelers. The road's stockholders, however, did not fare so well. Right here is the difficulty in financing any future expansion program except from revenues obtained by the railroad from its services.

Part of the increased investment in the New York Central Railroad in the twenty-four years resulted from the sale of additional stock. Last year not only were no dividends declared from the 1946 operations; after all charges were paid there was a deficit from operations applicable to the stock.

In 1922 the shares received in dividends 3.36 cents out of each dollar taken in, and 2.00 cents additional was transferred to surplus. In contrast, last year surplus was drawn upon to the extent of 1.6 cents for each dollar received, to make up the deficit from operations.

National Policy

Under a sound national policy that would give capital a reasonable chance of receiving a proper return for its hire, the railroad industry might duplicate or exceed its performance so far this century. A policy of starving capital, which under private enterprise must provide funds for the large and small tools of industry, cannot produce healthy progress in railroad operation or any other business.

In the present absence of a national policy conducive to railroad strength, the only likely source of funds is revenue from services. Even with the recent rise in freight rates, service revenue will provide comparatively little for modernization.

Achievement of modern and efficient rail transportation calls for restoration of the confidence of investors in railroad securities. This requires reasonably fair treatment of the roads by government authorities. They will speed such treatment if the people of the country get a full understanding of the necessity of a vital and progressive railroad system.

Transportation must be adequate and up-to-date if the nation is to have a sound economy. Development of railroads certainly will be to the advantage of the public and the employes, as in the past. Experience has shown that a nation progresses in proportion to its transportation facilities.

Foreign Countries Aided

This is borne out by the eagerness of foreign countries to obtain American locomotives and other railroad equipment, so that exchange of goods may be resumed and stricken areas rebuilt. A large part of the export flow for rail use has been on long-term credit, or by outright gift from the United States.

President Truman said in his recent Report on the State of the Union that, "We have shipped more supplies to the hungry peoples of the world since the end of the war than have all other countries combined." These supplies were gathered from all parts of the nation by the railroads of America.

No one here has begrudged necessary taxation to keep the world from chaos. But if America is to act as a balance wheel, or as a leader in world progress, its present facilities of production and transport must be maintained and improved.

Forgetfulness of the need to keep the domestic machine at a high state of efficiency may cause a crash in the delicate global system of which we are a part. In more humble terms, if the goose that lays the golden egg gets inadequate feed, everybody goes hungry.

The NEW YORK CENTRAL RAILROAD COMPANY

Annual Report 1947

BASIC in the policy guiding the management of the New York Central

- *Progressively better service to the public at lowest possible cost*
- *Fair pay and good working conditions for employes*
- *A reasonable return upon the money invested in the Company's properties*

THE NEW YORK CENTRAL RAILROAD COMPANY • 230 Park Avenue, New York 17, N.Y.

NEW YORK CENTRAL SYSTEM

THE NEW YORK CENTRAL RAILROAD COMPANY

Review of the Year

The financial results of the Company's operations in 1947 reflect the continued lack of economic stability which affected the nation at large throughout the year. The cost of doing business, boosted by inflation, cut sharply into revenues produced by the rates and fares received for the transportation services we performed.

Freight traffic revenue attained an all-time high, exceeding even the war years, although this was accompanied by a further decline in passenger traffic revenue which fell to a level 26 per cent below the record high of 1944.

Net income: 36 cents a share

Despite the fact that total operating revenues were $703,340,527, up 14 per cent from 1946, net earnings were meagre, amounting to only three-tenths of one cent of every dollar taken in. Net income was $2,306,082, equal to 36 cents a share.

This figure, non-compensatory though it was, represents a substantial improvement over 1946, when there was a net deficit of $10,449,268. The 1947 profit figure includes $7,350,156 of credit adjustments in taxes, while the 1946 deficit was after a carry-back tax credit of $21,142,300 taken that year.

The outstanding factors precluding a better 1947 return were the continued decline in passenger traffic, further inflationary increases in operating costs and the inadequacy of rates and fares to meet these increased costs.

Passenger traffic revenue was $14,921,725 lower than in 1946, due principally to lower volume of travel in coaches. Pullman travel declined slightly, while low-revenue commutation traffic increased.

Operating expenses held in line

Operating expenses were $48,185,364 higher than in 1946. About 80 per cent — $38,221,873 — of this increase was due, however, to larger unit costs of fuel and other materials and higher wage rates. Otherwise it was occasioned by heavier transportation requirements, as reflected in an increase of 5.2 per cent in freight train miles and 1.2 per cent in passenger train miles.

More rate relief is essential

While our revenues were augmented by increases in freight rates averaging about 18 per cent which became effective the beginning of 1947, and by further interim increases averaging 8.9 per cent effective October 13, as well as by increased passenger fares of approximately 10 per cent and further increased compensation for carrying mail and express, the relief thus afforded was insufficient to offset increased operating costs, despite the high volume of traffic.

Encouragement for the future is found in the recognition by the Interstate Commerce Commission of the need of the carriers for more adequate revenues. In the application pending before that body for increased freight rates, which for the eastern carriers would amount to an average of approximately 31 per cent, the Commission has, effective January 5,

1948, substituted over-all interim increases of approximately 17.5 per cent for the 8.9 per cent increase allowed last October, pending final decision which it is hoped will result in permanent increases adequate to the needs of the carriers.

Net railway operating income, before other income, miscellaneous deductions and fixed charges, amounted to a total of $24,519,561 for the year. While this is an increase of $9,072,342 over 1946, it produces a rate of return of only 1.4 per cent on the depreciated investment in railway property of the New York Central and leased lines used in transportation, including cash, materials and supplies.

Taxes over $50,000,000

Taxes continued to absorb a substantial part of our revenue dollar. The taxes accrued in 1947 totaled $52,435,502, an increase of $28,482,093, or 118.9 per cent over 1946, when the large carry-back tax credit was available. Included are payroll taxes for employe retirement and unemployment benefits of $31,985,446, an increase of $9,183,795, or 40.3 per cent over the previous year, largely attributable to the increase in rate from $6\frac{1}{2}$ per cent to $8\frac{3}{4}$ per cent effective January 1, 1947, as required by the Crosser Act.

Extensive improvements under way

Improvements in our facilities and equipment to meet the transportation demands of the present and the foreseeable future have been in progress for some time. This is essential if our Company is to maintain its position in the transportation field. Our program includes the expanded utilization of modern Diesel-electric motive power, a large fleet of the most modern streamlined passenger cars, thousands of new and improved freight cars and substantial improvements in roadway and facilities, coupled with an intensive employe training program.

Through such measures, and through utilization of technological improvements in the development of new efficiencies, we expect to maintain the Central's pre-eminent character in transportation.

Debt increase slight

Our improvement program necessarily involves the expenditure of substantial sums of money, but it has been progressed with relatively little increase in the net amount of outstanding debt, and with a slight reduction in the total annual interest the Company must pay on such obligations.

During 1947 the Company retired at maturity or by purchase a total of $24,410,054 of debt. Offsetting this reduction, there were issued $29,400,000 of new equipment trust certificates. Interest requirements on an annual basis, however, decreased $189,252.

Thus, at the end of the year total debt represented by capital obligations outstanding of the Central and its lessor companies was $854,212,012, compared with $849,222,067 at the end of 1946, a net increase of only $4,989,946.

Since the end of 1932 there has been a net reduction of $254,595,941 or 23 per cent, in the total outstanding capital obligations of the Company and its lessor companies. Interest, computed on an annual basis, on such obligations outstanding at the end of 1947, was $14,774,146 less than at the end of 1932, a reduction of more than 31 per cent.

Future prospects favorable

The outlook for 1948 necessarily is affected by developments in the national economy. Traffic prospects appear to be good. It is estimated that the demand for freight transportation will be substantially as heavy as in 1947. With the new modern equipment which will become available during the year, passenger traffic should be stimulated.

If our expectations with respect to the volume of traffic are realized and are accompanied by adequate rate increases and a leveling off of costs, the prospects for 1948 are favorable.

However, to assure sound financial health, there must be established a more normal relationship than has been experienced in the last few years between the cost of doing business and the rates we receive for services performed. We have faith that this will be determined by enlightened public policy based on public recognition of the essential character of the railroads in a healthy national economy.

G Metzman

March 31, 1948 *President*

CENTRAL FACTS AT A GLANCE

THUMBNAIL INCOME ACCOUNT

	1947	1946
Operating revenues.	$703,340,527	$616,784,755
Operating expenses.	606,536,857	558,351,493
Net revenue from railway operations	$ 96,803,670	$ 58,433,262
Taxes	$ 52,435,502	$ 23,953,409
Equipment and joint facility rents	19,848,607	19,032,634
Net railway operating income	$ 24,519,561	$ 15,447,219
Other income, less deductions	19,305,453	15,062,252
Income available for fixed charges	$ 43,825,014	$ 30,509,471
Fixed charges......	41,518,932	40,958,739
Net income........	$ 2,306,082	$ 10,449,268*

*Deficit

THUMBNAIL BALANCE SHEET

DECEMBER 31, 1947

ASSETS		LIABILITIES	
Investments in road, equipment and other properties	$1,017,965,622	Bonds and equipment obligations	$ 565,604,040
		Current liabilities	134,470,739
Investments in affiliated and other companies.	464,407,457	All other liabilities	193,995,639
Current assets ..	215,159,258	Capital stock, outstanding	562,332,426
All other assets..	34,012,742	Surplus	275,142,235
Total..	$1,731,545,079	*Total..*	$1,731,545,079

	1947	1946	1945	1944
Rate of return on book investment (after depreciation and amortization)	1.4%	0.9%	3.0%	3.8%
Average number of employes..........	119,999	119,844	124,461	122,756
Total wages paid....................	$393,783,304	$372,646,206	$337,418,287	$337,299,617
Average wage per employe............	$ 3,282	$ 3,109	$ 2,711	$ 2,748
Retirement and unemployment insurance taxes	$ 31,985,446	$ 22,801,651	$ 20,253,230	$ 20,133,547
Stockholders of record..............	60,099	62,717	59,926	61,460
Total dividends declared............	—	—	$ 9,671,091	$ 9,671,091
Amount of dividend per share.........	—	—	$ 1.50	$ 1.50
Revenue freight tons.................	188,015,638	171,932,093	180,822,800	196,186,843
Revenue ton miles..................	43,570,786,753	40,215,577,150	44,363,014,939	51,921,983,273
Carloads	4,803,635	4,511,618	4,639,172	4,987,877
Revenue per ton mile................	1.14¢	1.02¢	.94¢	.90¢
Revenue passengers	73,452,492	77,641,742	78,877,809	81,554,513
Revenue passenger miles.............	6,079,433,127	7,046,346,183	8,786,588,830	9,291,910,179
Revenue per passenger mile	2.19¢	2.10¢	1.93¢	1.95¢

233 MILLION DOLLAR

improvement program nearing completion

Like the railroad industry generally, the Central emerged from World War II needing a large amount of new motive power, rolling stock and other equipment, as well as a number of roadway and structural improvements.

When our equipment was undergoing the severe pounding of all-time record traffic during the war, it was impossible to obtain replacement in any sizable volume. Therefore, older locomotives and cars were repaired and continued in service long after it would have been more economical to replace them. This necessarily resulted in higher operating costs.

Largest railroad program

To reduce operating costs and thus help improve earning power — and at the same time keep our service up to standards which are essential in this intensely competitive age — the Central undertook the largest post-war improvement program of any railroad. The bulk is new motive power and rolling stock, but included are a substantial number of additions and betterments to our roadway and structures.

For The New York Central Railroad Company and leased lines, the program totals approximately $233,000,000. This includes expenditures from 1945 through 1947 for new motive power and rolling stock, and for roadway and structures improvements; commitments on orders outstanding for new motive power and rolling stock, to be received at various times in 1948 and 1949; and estimated roadway and structures improvement costs for 1948.

This post-war modernization program provides:

Nearly $69 millions for new freight cars, of which over half had been received by the end of 1947;

More than $62 millions for new post-war passenger cars, deliveries of which are expected to be completed this year;

More than $45 millions for new Diesel-electric freight and passenger locomotives, of which about one-third have been received, and on which deliveries will extend until late in 1949;

More than $6 millions for new Niagara-type steam locomotives, all of which are in service; and

Approximately $50 millions for improvements to roadway and structures.

Virtually all of the roadway and structures improvements, and about one-fourth of our new motive power and rolling stock expenditures, are met from

The all-coach, regular-fare Pacemaker, pictured near Harmon, N. Y., started in February the Central's 1948 parade of 28 new streamliners. Twin Pacemakers run daily between New York City and Chicago

The new refrigerator cars and the new Diesel-electric locomotive which is shown drawing them near Rochester, N. Y., are among many new units received in the Central's freight improvement program

current revenues and working capital. The remaining three quarters of these new equipment expenditures are financed through equipment trust certificates, generally payable in ten annual installments.

While the preceding figures necessarily include some estimates, particularly on the cost of new equipment not yet received, they provide an overall picture of the Central's determined drive to reduce operating costs and to provide still better service. If a properly compensatory rate structure can be coupled to them, these steps should do much toward restoring the Central's earning power.

$83 million passenger program

This is the year the Central will virtually complete its initial post-war new passenger equipment program totaling about $83 millions — the largest investment, by far, in new passenger equipment undertaken by any railroad, anywhere.

While new passenger equipment could not be manufactured until after the war, the Central started ordering its rapidly-arriving fleet of 720 gleaming steel cars in 1944. Our own studies and surveys had shown the need; a national survey of public opinion last year produced a similar finding: "The public's major suggestion for making rail travel more attractive is to improve the equipment."

By the end of 1947, the Central had received 396 of these new cars, including all of the 213 new coaches ordered. The remaining 324 cars — including all 263 of the various types of new sleepers — are arriving this year, two years behind original expectations.

In addition to acquiring these new passenger cars at a cost of more than $62 millions, the Central is expending approximately $21 millions for post-war passenger Diesel-electrics and Niagara-type steam locomotives. About two-thirds of the $21 millions is for the Diesels, and deliveries indicate that, by spring, 29 of our important long-distance passenger trains will be drawn by this type of motive power.

What the new cars will do

The arrival of the Central's large fleet of streamlined passenger cars, designed to attract passenger business through incorporation of the newest comforts and conveniences, will make it possible to equip 28 of our leading passenger trains this year with a complete complement of post-war cars.

No. 1 on the all-new parade was the all-coach, passenger Pacemaker, in February. Before 1948 ends, there will be an all-new Twentieth Century Limited, Commodore Vanderbilt, Detroiter, New England States, Ohio State Limited, and many others. A large number of new cars also will be added to other Central trains.

Receipt of the new passenger equipment will make available more cars or trains, depending upon the needs of the traveling public, in through services between the east and west coasts, or even between

New two-way FM radio systems on all of the Central's tugboats in New York Harbor help provide increased efficiency through improved communications with the office of the tug dispatcher

This full-length diner—which is operated in conjunction with an accompanying kitchen-lounge car—is one of the many new types of passenger cars already in regular service on the Central

other eastern and western points wherever a regular movement of travel provides justification. In cooperation with the various western railroads, surveys are continually being conducted to determine such service requirements.

New travel promotion aids

To encourage customer utilization of our passenger train services, the Central inaugurated new travel promotion aids in 1947.

A new rail-auto plan provides business men and pleasure seekers alike with all the advantages of both forms of transportation. The traveler gets there by train, makes his local calls by automobile—rented from garages in leading cities, and reserved in advance through the assistance of Central ticket agents.

The new Traveloan plan permits installment buying of railroad tickets and other travel expenses. It was established in cooperation with local banks. The traveler goes to a Central ticket office and arranges for tickets and reservations just as if he were paying cash. Repayments to the bank are in 12 monthly installments.

Another new Central service is the railroad credit card, for travel on the more than thirty leading railroads which jointly established the plan. Any person or company with proper credit can obtain a rail travel card by applying to the Rail Travel Agency, 436 Union Station, Chicago 6, Illinois.

Other new passenger conveniences are on the way, including such modernities as radiotelephone service for passengers on principal Central trains between New York and Chicago and other cities.

$100 million freight program

In its drive to reduce operating costs and improve earnings and service, the Central is engaged in a $100 million program of new motive power and rolling stock for freight service.

This consists of approximately $31 millions for new Diesel-electric freight locomotives, the bulk of which will be received in 1948 and 1949, and about $69 millions for the 18,554 new freight cars which the Central has received or ordered since the start of 1945.

About half of these new freight cars had been received by the start of 1948, and most of the remainder are due this year.

Many new industries gained

Through the efforts of the Central's industrial representatives, 460 additional industrial plants were located along the System in 1947, bringing the total gained to 1,006 for 1946 and 1947. The freight traffic volume of the plants gained in 1947 is estimated at 221,670 carloads a year — equivalent to adding about a one-half month's traffic annually, based on the 1947 level of cars handled.

The Central has many services for such shippers and receivers of freight. As one of its newest conveniences, your railroad issued in 1947 a unique freight timetable as a handy guide for shippers.

The new timetable presents the post-war schedules of more than 100 fast, regularly scheduled "symbol" freight trains — led by the Diesel-electric powered freight Pacemaker, with its specially designed red and grey cars racing overnight between New York and Buffalo at speeds up to a mile a minute.

$50 millions for roadway, structures

Modernizations are under way all along the 11,000-mile Central System. They range from new tugboat and yard two-way radio communication systems to new Diesel-electric locomotive shops; from new freight-handling facilities to new signal systems; from new passenger stations and facilities to new track layouts.

In addition to the $100 million freight and $83 million passenger equipment programs already described, the Central is spending approximately $50 millions for additions and betterments to roadway and structures for 1945-48 — an expenditure benefiting both types of service.

An important Central improvement is the $2,500,000 curve-straightening project completed last November at Little Falls, N. Y. This "Gulf Curve" project, like many others, was delayed by the war. Now, by changing the course of the Mohawk River, the curve has been reduced from about seven and one-half degrees to about one and one-half degrees, permitting train operation at regular speeds.

One of the largest roadway and structures improvements is at Toledo, O., where the Central and the Baltimore and Ohio jointly are completing an $18,500,000 facility which will be the most modern coal and ore docks on the Great Lakes. The new docks, to be opened this spring with the beginning of lake navigation, are on Maumee Bay at a location selected for easy access for freighters in all kinds of weather. The facility, expected to bring us substantial additional traffic, will have capacity for handling twenty million tons of coal and four and one-half million tons of ore annually.

System companies, affiliates active

In addition to the extensive modernization program of the Central and its leased lines, similar improvements are being made by other Central System companies and affiliates. Of these the major companies are the Pittsburgh and Lake Erie and Indiana Harbor Belt Railroads, Merchants Despatch Transportation Corp. and Northern Refrigerator Line, Inc.

Including their 1945-48 expenditures and commitments on the same basis as for the Central and leased lines, their program totals more than $39 millions. About three-fourths of this is for new freight cars of various types and most of the balance is for motive power.

Adding these $39 millions to the $233 millions for the Central and leased lines brings the post-war improvements program total for the Central System and for these affiliated companies to approximately $272 millions.

Major and minor, all improvements were undertaken to fulfill specific needs and to provide the improved efficiencies which make for lower operating costs and better earnings and better service, and all underline the "New" in New York Central.

A freight train is shown in operation over the Central's new tracks at Little Falls, N. Y., after the completion of a major curve-straightening project along the Mohawk River last fall

This general view shows the Maumee Bay location at Toledo, O., where the New York Central and the Baltimore & Ohio railroads now are completing an improved coal and ore handling facility

EMPLOYE TRAINING is expanded

In a nationwide poll of public opinion about the railroads, a leading research organization found:

"More courtesy and a generally better grade of service are the chief improvements the public would like to see made."

The Central long has realized that its business success depends on the quality of its service — its only product. That service, to a substantial degree, is based on the courtesy and willingness of the employes. That's why your railroad is constantly placing such great emphasis on various types of public relations training for employes.

New correspondence course started

The Central's newest effort further to improve courtesy and service to the traveling and shipping public is a correspondence course in public relations for employes.

It brings out such points as the value of courtesy to employes both on and off the job; numerous practical hints for improving relations with the public and other people; and provides basic knowledge about the workings and economics of the company and the relationships of its customers, employes, management and investors.

There are four short, well-illustrated sections which compose the new course. Each unit ends with a list of questions, and all employes who achieve an average of 75 per cent or better for the course receive certificates in recognition of their public relations interest and ability.

More public relations classes

The new correspondence course supplements the public relations conference classes being held for several years at many points on the Central's 11,000-mile, eleven-state system.

The number of employes who have attended those classes now has passed the 50,000 mark, and additional groups are being organized regularly. Generally, they are limited to between 15 and 20 people, drawn from various departments at the particular locations. This enables all to participate in the informal discussions, which are held under guidance of trained group leaders. It also makes for closer understanding and improved cooperation between the various departments.

These classes remain the basic public relations training activity on the Central. Some employes, however, have been unable to attend because of unusual working hours or varying working locations, particularly in train service.

The correspondence course was initiated, therefore, to reach such employes, and to provide addi-

Public relations conference classes, which have been in operation several years at numerous locations along the Central, are being supplemented by correspondence courses in public relations for employes

tional training for those who already have received their "Certificate of Merit" for successful completion of their classwork.

Intensive dining car training

Another of our intensive training programs is for our dining car employes. Since the spring of 1947 about 2,500 of them, or virtually every employe in this type of service, have received this continuing training. An individual crew is covered each day, and a standard dining car is set aside exclusively for this activity.

One phase of the program includes instruction in sanitation, preparation and handling of food, use of equipment, and practical demonstrations of proper methods of service. Each session culminates in a regular meal served to members of the class by several waiters whose performance is observed by the others. Constructive criticisms are made whenever they are found necessary.

As another phase, conference meetings are held regularly for instructions in and discussions of courtesy to the public, and for informative talks by people prominent in the hotel and restaurant fields. Supervisors also are on the road constantly, making personal checkups on results which we believe generally are very good.

Freight training, too

In addition to continuing other training programs — which range from classroom instructions and practical wire-recorded "playback" demonstrations in telephone courtesy to apprentice training for mechanical crafts — the Central inaugurated in 1947 an extensive freight station training program.

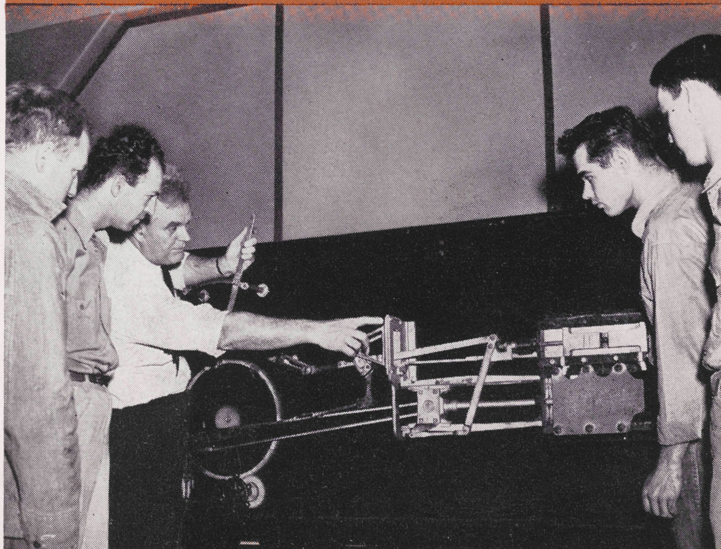
The object is continued progress in eliminating causes of loss and damage to less-than-carload freight shipments, to the benefit of the freight shipper and receiver, and to the benefit of the railroad as well.

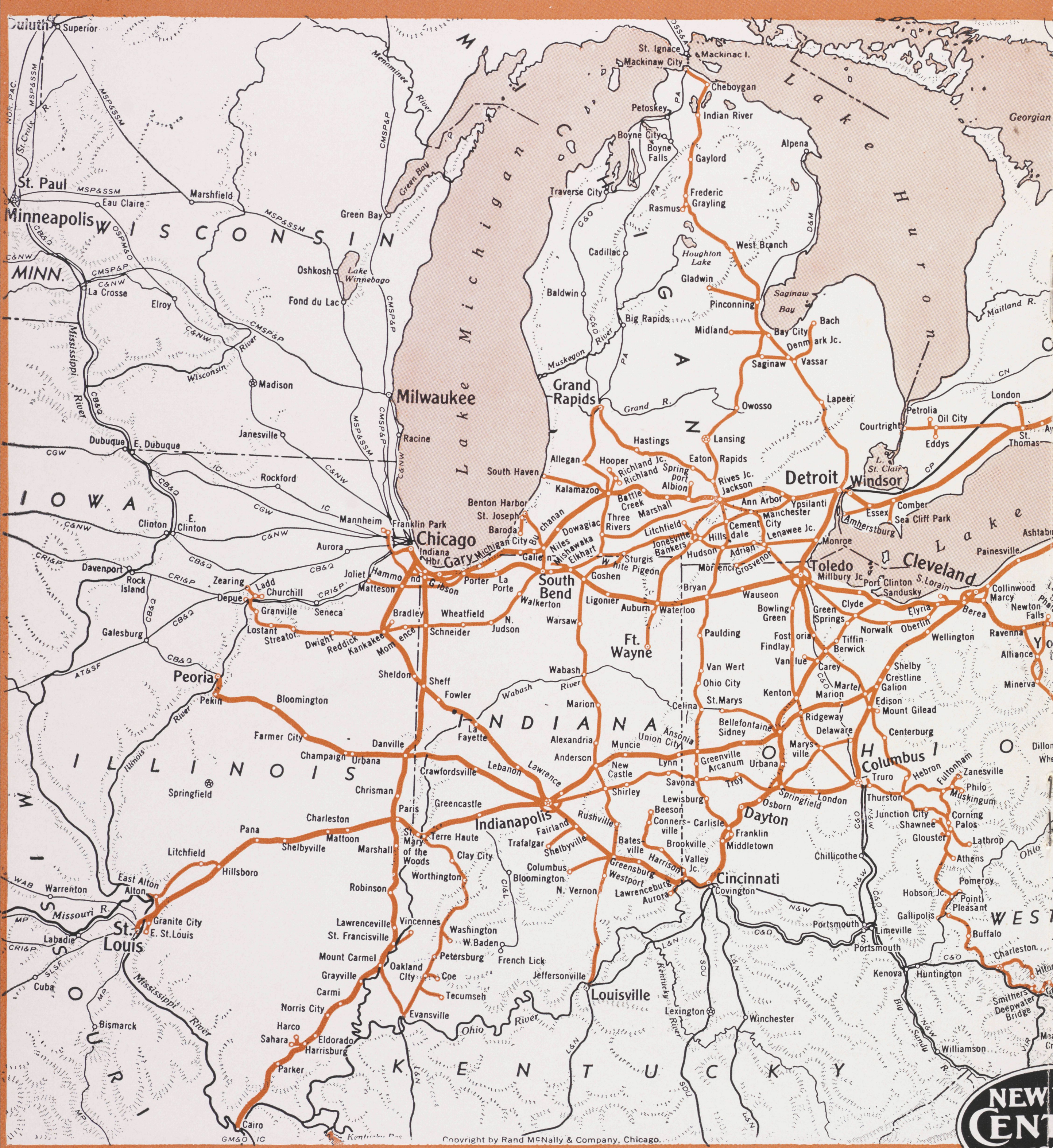
Every major freight station on the System is participating, and the program is being extended to the smaller stations. At each of 60 key locations a service committee, whose members represent the various jobs performed in each freight house, assists the agent in bringing the instruction to all of the freight station service employes.

To extend this program and others of a similar nature, the Central is building instruction cars. The first, due shortly, will seat 54 persons, will be fully equipped for visual education — motion and sound-slide pictures, charts, diagrams — and will be staffed with trained instructors in various fields.

The Central's dining car training, for an individual crew each day, covers such important subjects as courtesy, food handling

Other training includes "playback" demonstration in telephone courtesy (above) and apprentice classes for mechanical crafts

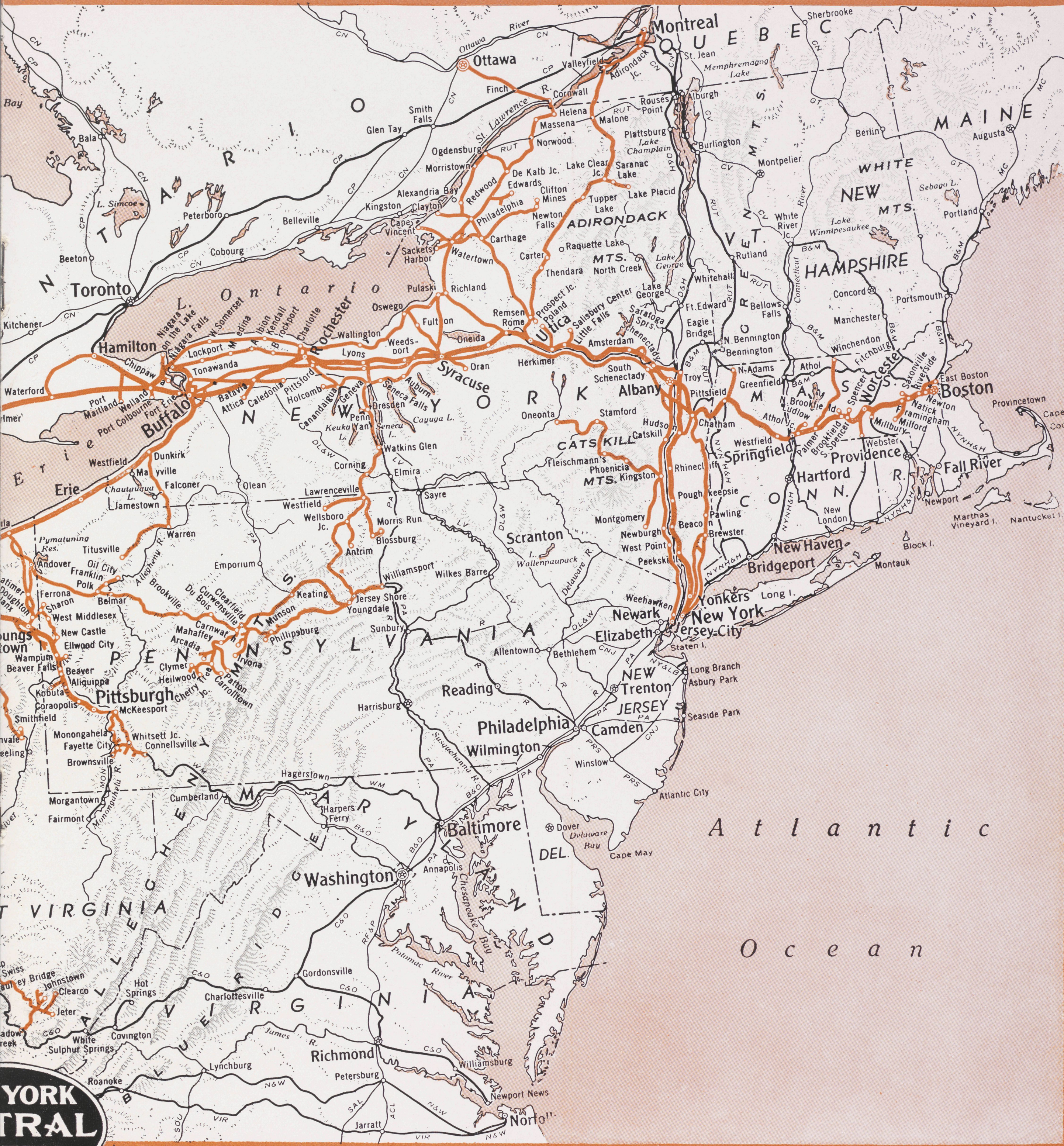




THE WATER

The New York Central System operates 11,
Canada in the great commercial and indu
and the Mississippi Valley, providing the hi

NEW YORK CENTRAL • MICHIGAN CENTRAL • BOSTON



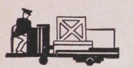
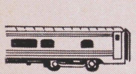
LEVEL ROUTE

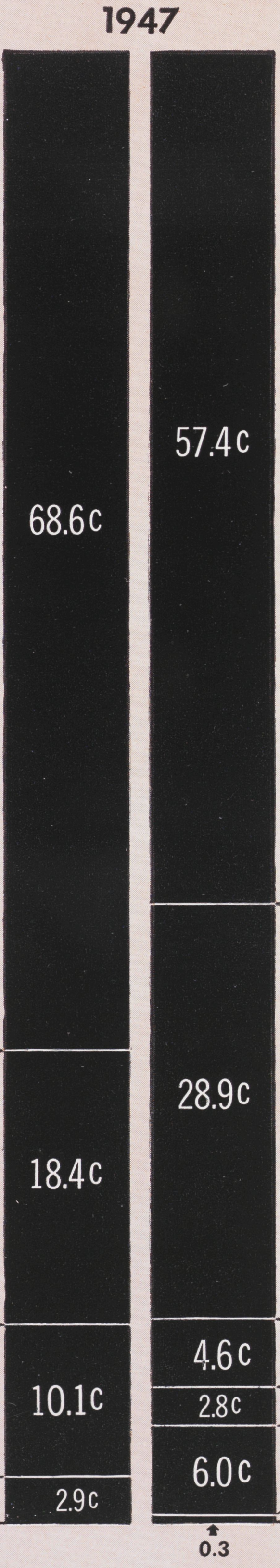
,000 miles of railroad in eleven states and
strial area between the Atlantic Seaboard
ghest type of passenger and freight service

& ALBANY • BIG FOUR • PITTSBURGH & LAKE ERIE

THE YEAR'S BUSINESS AT A GLANCE

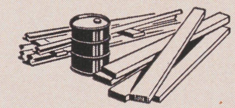
THE INCOME DOLLAR . . .

FREIGHT TRAFFIC	MILLIONS OF DOLLARS 1946	1947
 Coal, ore and other products of mines	106.4	136.1
 Manufactures and miscellaneous	209.0	264.6
 Wheat, grain, flour, and other products of agriculture	35.4	36.6
 Lumber and other products of forests	11.3	12.8
 Livestock and products of animals	28.0	26.0
 L.C.L. (Less than carload lots)	41.0	46.7
Total gross freight revenue	431.1	522.8
LESS: Items for absorbed switching, pick-up and delivery, etc.	21.9	26.0
Total net freight revenue	409.2	496.8
PASSENGER TRAFFIC		
 Coach (except commutation)	85.9	73.3
 Pullman	55.0	52.3
 Commutation	7.2	7.6
Total passenger revenue	148.1	133.2
OTHER OPERATIONS	59.5	73.4
INVESTMENTS	17.0	21.2



. . . AND WHERE IT GOES

	MILLIONS OF DOLLARS 1947	1946
HUMAN ENERGY Wages, salaries, pensions and payroll taxes	415.8	385.7
MATERIALS AND SERVICES Fuel, material and supplies, and other costs of operation	209.5	183.0
TOOLS WEARING OUT Depreciation and amortization	33.1	31.5
TAXES (excluding payroll)	20.5	22.3
INTEREST, RENTALS, ETC.	43.4	42.9
NET INCOME	2.3	--



OPERATIONS AT HIGH LEVEL—

freight traffic reaches peacetime peak

The Central in 1947 overcame many obstacles to carry the largest volume of freight traffic recorded in any peacetime year.

Important among the obstacles was the shortage of freight cars throughout the country resulting from the retirement for obsolescence and other reasons of more cars than manufacturers were able to replace with new ones.

Although many new locomotives, both steam and Diesel-electric, were acquired and placed in service during and since the war years, these additions to our motive power were insufficient in number for the most efficient movement of the unusually heavy freight traffic volume handled.

Sleeping car service, which has declined far less in volume than travel in coaches, has suffered from the failure to obtain delivery of the Central's fleet of various types of new sleeping cars, which have been on order for several years.

Following the coal strike in the spring of 1947, and with an unusually heavy demand for coal throughout the country, our fuel supply included considerable coal of a quality below our normal standard. This resulted in some impairment of the performance of coal-burning locomotives.

Freight traffic up 8% from 1946

Despite those conditions, the volume of freight traffic reached a new peacetime peak, 8.3 per cent higher than in 1946, and only 20.7 per cent under the all-time record movement in 1943. This was accomplished chiefly by bettering the average turn-around time of cars, in which the railroads were greatly aided by the splendid cooperation of shippers and receivers of freight, despite the prevalence, almost universally in industry, of a five-day week.

There was greater utilization of the limited supply of freight cars available, through a substantial reduction of the average time consumed between the initial placement of a car for loading and its availability for subsequent use.

The average freight train turned out more net ton miles of transportation service for each hour it was on the road, reflecting heavier loading of cars and increased train speed as well as more efficient operations in yards and terminals.

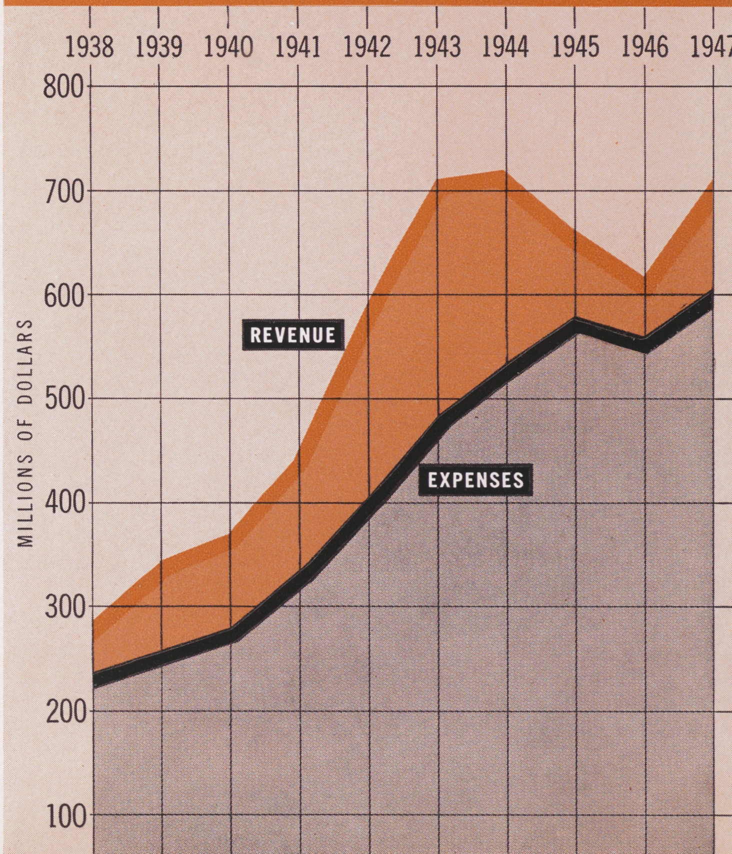
Operating revenues near record

Operating revenues, reflecting higher freight rates and passenger fares, and increased compensation for carrying mail and express, totaled $703,340,527, only 1.6 per cent under the record high of 1944.

Freight revenue of $496,734,880 was at an all-time high, up 21.4 per cent from 1946. Passenger revenue of $133,187,177 was, however, 26.4 per cent under the peak year of 1944 and 10.1 per cent less than in 1946. We received 36.1 per cent more for carrying mail and 266.4 per cent more for handling express than in 1946. Other operating revenues increased 1.6 per cent.

The average revenue for transporting a ton of

RAILWAY OPERATING REVENUE AND EXPENSES



freight a distance of one mile was 1.14 cents, compared with 1.02 cents for 1946, while the average revenue for transporting a passenger a distance of one mile was 2.19 cents, compared with 2.10 cents for 1946.

Freight traffic in 1947, measured by the number of tons moved one mile, totaled 43,570,786,753 ton miles or 8.3 per cent more than in the previous year. Passenger traffic, measured by the number of passengers carried one mile, was 6,079,433,127 passenger miles or 13.7 per cent less than in 1946.

Operating expenses up

Despite improved operating efficiency, railway operating expenses were $48,185,364 higher than in 1946, an increase of 8.6 per cent. This was occasioned largely by higher unit costs of fuel and other materials, and increased wage rates.

The cost of fuel and other materials and supplies increased 13.7 per cent over 1946. At the end of 1947 the cost of coal had increased to an average of $4.45 per ton, compared with $3.51 per ton at the end of 1946, and fuel oil had increased to 8.2 cents per gallon from 6.8 cents at the end of 1946.

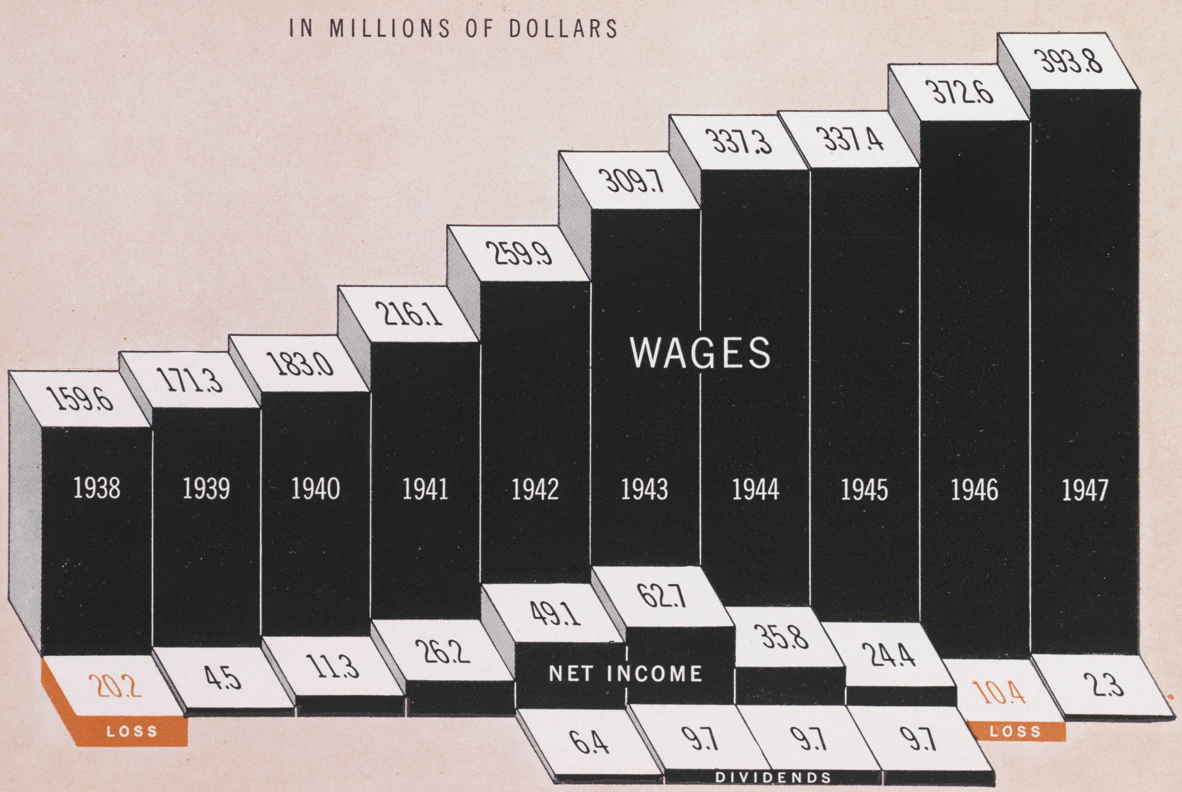
The total required for wages, salaries, pensions and payroll taxes increased over 1946 by 7.8 per cent. With personnel employed at substantially the same level as in 1946 this increase is due to higher wage rates and higher payroll tax rates. In May, 1946, employes were granted an increase of 2½ cents an hour in addition to the 16 cents an hour which became effective at the beginning of that year. The 1947 payroll costs reflected this 2½ cents additional increase for the full year, as well as further increases which became effective during 1947.

A wage increase of 15½ cents an hour, effective September 1, was awarded to non-operating employes by an arbitration board. The conductors and trainmen subsequently accepted in settlement of their demands the same wage increase to take effect November 1, the agreement including also the adjustment of certain working rules.

The enginemen, firemen and switchmen declined to settle on this basis and continued to demand a 30 cents an hour pay increase with a minimum increase of $3.00 a day, together with costly changes in working rules. On January 27, 1948 the President of the United States appointed an emergency fact-finding board to pass upon their demands.

The so-called Crosser Act, effective January 1, 1947, increased from 3½ per cent to 5¾ per cent the Federal Tax payable by both employer and em-

ANNUAL WAGES, NET INCOME AND DIVIDENDS



ploye under the Railroad Retirement Act. This requirement substantially increased our payroll taxes. The 3 per cent tax for unemployment insurance, paid by the Company alone, continued in effect.

Net railway operating income, after the payment of taxes and equipment and joint facility rents, was \$24,519,561, up 59 per cent from 1946 when it was \$15,447,219, and the operating ratio (ratio of expenses to revenues) for 1947 improved to 86.24 from the 90.53 figure for 1946. This produced a return on depreciated investment of only 1.4 per cent.

Official changes

At the annual meeting of the stockholders of the Company, held on May 28, 1947, William H. Vanderbilt, a former Governor of Rhode Island, was elected a director to succeed Bertram Cutler who retired as a member of the board at his own request after 27 years of service in that capacity. Joseph M. O'Mahoney, Secretary of the Company since 1936 and in the employ of the Company for 47 years, was elected a director to succeed Myron C. Taylor, who retired at his own request after 23 years as a member of the board.

After more than 47 years of service, Alfred H. Wright, Vice President, retired on November 30, 1947, pursuant to the provisions of the Company's retirement regulations.

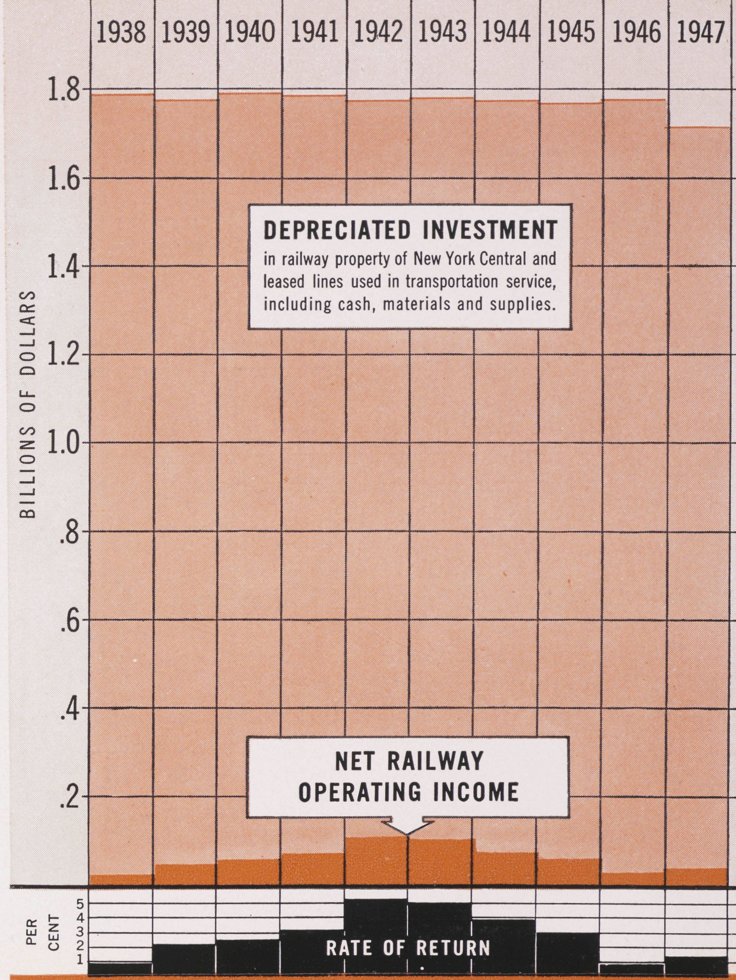
Raymond D. Starbuck, Executive Vice President, also retired under the same regulations on December 31, 1947, after 45 years of service.

Employe loyalty is high

The army of 119,999 men and women who make up the New York Central organization was a vital force in our transportation performance for 1947. In engine cabs, in machine shops, in signal towers, in yards and terminals, in dispatchers' offices, along the right of way and in countless other places, their vigilance, skill and loyalty contributed immeasurably to the big job we had to do. We are proud of these men and women who did so much to uphold New York Central standards of service through adverse weather and other trying conditions.

We are especially pleased to honor three employes to whom the Central's coveted Valor Medals were awarded during the year for unusual acts of heroism. They are:

John Buttler Reynolds and Chester Joseph Rowe, section foremen on the Michigan Central, whose exceptional efforts, at extreme risk to themselves, succeeded in saving the life of one of two youths



INVESTMENT, NET RAILWAY OPERATING INCOME AND RATE OF RETURN

walking in the path of an approaching train at Wyandotte, Mich.; and

John Van Dover, deckhand on a New York Central tug, who dove into New York Harbor's waters and saved a man from drowning.

Executives highly honored

Two of the Company's officers were signally honored during the year by distinguished national societies. Richard E. Dougherty, Vice President — Assistant to President, was elected President of the American Society of Civil Engineers. Paul W. Kiefer, Chief Engineer, Motive Power and Rolling Stock, was awarded the American Society of Mechanical Engineers Medal for 1947 — the highest honor conferred by that Society — for "outstanding achievement in railway transportation."

PUBLIC POLICY a key to the future

Throughout 1947, the railroads individually and through the Association of American Railroads made a concerted effort to bring about greater recognition of the need for adequate railroad earnings, both in the public interest and as necessary to encourage the further investment of private capital in the industry. They have gone to the public with the facts about this vital industry.

In the final analysis, what the railroads are permitted to earn is a question to be determined by public policy and, in turn, by the public which the railroads serve. The rate of return earned by the railroads clearly has been inadequate and is only about half of what the Supreme Court of the United States has held to be a fair and reasonable rate of return for regulated utilities.

The Interstate Commerce Commission during the past year gave practical expression to its recognition of the pressing need of the carriers for increased revenues. The Commission expedited consideration of applications for relief and acted promptly to authorize increased interim freight charges pending final decision on the carriers' application for rate advances to offset higher operating costs. The Commission also, with most helpful effect, approved increased passenger fares and compensation for carrying United States mail as well as higher rates for express service.

Adequate earnings are needed

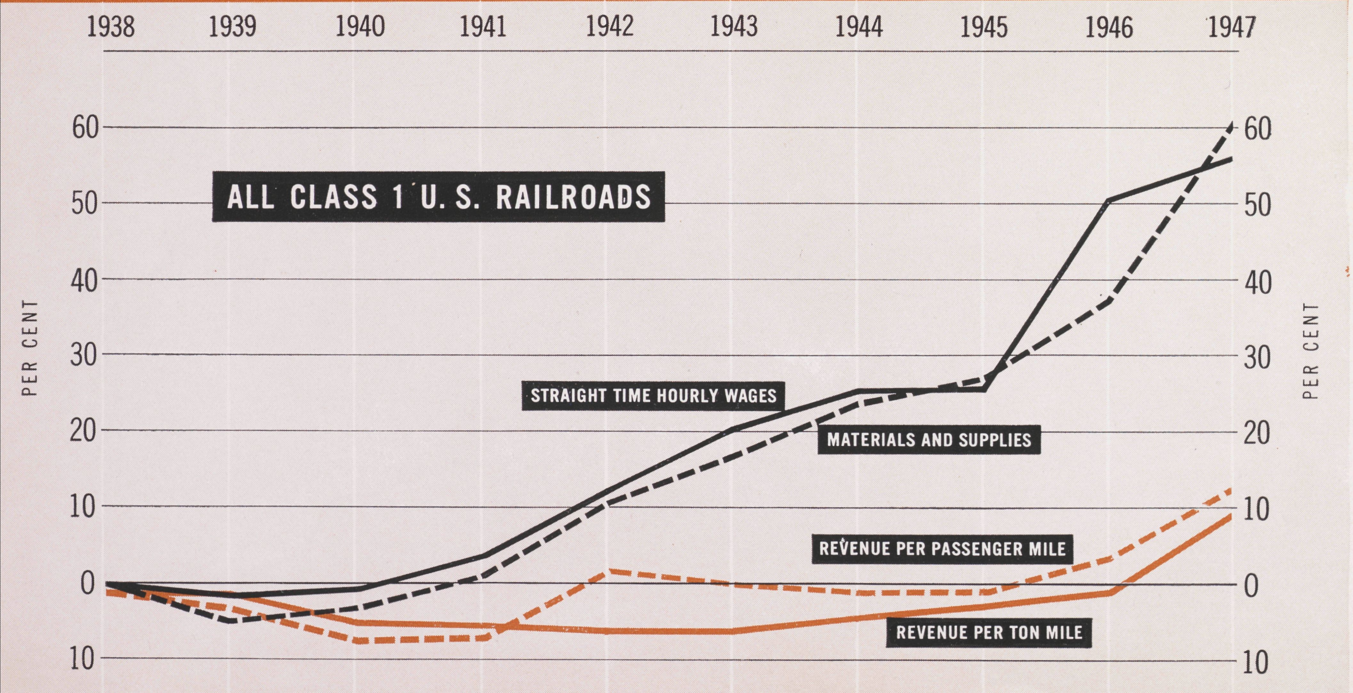
The public wants improved rail service, and the railroads are anxious to supply it. However, this calls for physical improvements in the properties of the railroads on a major scale and large expenditures of capital. Revenues must be sufficient to enable them to finance these improved facilities from earnings or from credit which the earnings will support.

Railroad earnings are, however, influenced importantly by considerations other than the charges they are authorized to make for transportation services. Some of these considerations can be dealt with only by Congress, to which the railroads must look for constructive legislation to equalize competitive conditions within the transportation field and to correct other discriminatory regulations affecting the industry.

Crosser Act increases burden

Pending in the present Congress are several bills designed to eliminate or modify some or all of the

HOW BASIC EXPENSES OUTDISTANCED RATES
(PER CENT OF CHANGE SINCE 1938)



fundamental and far-reaching changes in the railroad retirement and unemployment insurance systems occasioned by the passage in 1946 of the Crosser Act, which became effective January 1, 1947.

This act increased the rate of tax payable by the railroads for retirement and unemployment insurance benefits to a total of $8\frac{3}{4}$ per cent, thus still further widening the previously existing disparity between what the railroads are required to pay and what is paid by other industries for social security and unemployment benefits.

Payroll taxes heavier

The impact of these payroll taxes on the earnings of the New York Central has been heavy. The total amount required to meet them has increased progressively in each of the last ten years, from $8,934,036 in 1938 to $31,985,446 in 1947 — or more than $4\frac{1}{2}$ cents of each revenue dollar received. The new rates imposed by the Crosser Act increased the payment on this account for 1947 alone by $9,183,795 above 1946.

Had we been required to pay for retirement benefits only at the 1 per cent rate imposed in other industries, our payroll taxes would have been $17,400,000 less than they actually were in 1947. Similarly, in the case of unemployment insurance taxes, the rate assessed against the railroads is substantially in excess of that imposed on industry generally.

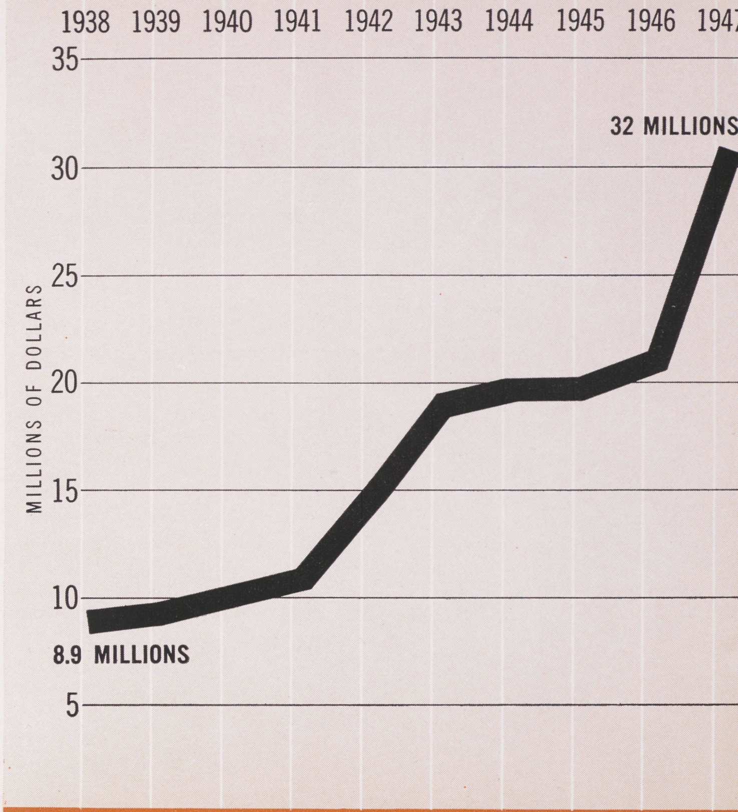
Partial relief proposed

Of the several bills now before Congress to amend the Crosser Act, the ones which seem most likely to receive consideration in the present Congress are identical bills which deal only with the unemployment insurance system. If enacted, they would eliminate the wholly unprecedented feature of providing for the payment, at the sole expense of the employer, of benefits to employes and former employes for sickness, injury and maternity, regardless of whether or not the disability has any connection with the employment.

They would substitute for the present 3 per cent tax imposed upon the railroads to finance the unemployment insurance system a sliding scale based upon the unemployment reserve fund surplus, which now exceeds $800,000,000.

Bulwinkle-Reed Bill also pending

Another important matter affecting the railroads remains to be determined by Congress. This is the so-called Bulwinkle-Reed Bill, now before Congress,



RAILROAD RETIREMENT AND UNEMPLOYMENT TAXES

which is designed to clarify the law as to the right of the railroads to maintain joint rate bureaus and otherwise cooperate in the joint handling of matters of common concern. This legislation has the full support of both shippers and carriers, as well as of governmental authorities other than the anti-trust division of the Department of Justice.

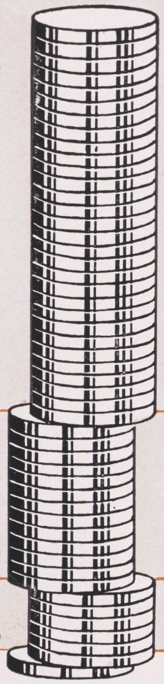
The Bulwinkle-Reed Bill was passed by the Senate in the last session of the present Congress, and it is hoped favorable action will be taken by the House of Representatives during the present session.

The Central has faith in the essential fairness of the American people when they fully understand the issues. It is obvious to anyone familiar with the industry that the financial health and serviceability of the railroads are dependent on sound and enlightened public policies.

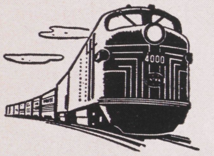
The effort further to inform the American people concerning the basic issues involved will be carried forward in 1948 in the hope of a brighter future, to the benefit of everyone served by and otherwise dependent on the railroads.

BALANCE SHEET AT A GLANCE

ASSETS



INVESTMENTS in Road, Equipment and Other Properties (after allowance for wear and use)



$1,017,965,622

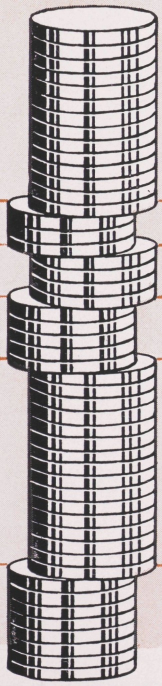
INVESTMENTS in Affiliated and Other Companies $464,407,457

CURRENT ASSETS $215,159,258

ALL OTHER ASSETS $34,012,742

WE OWN: $1,731,545,079

LIABILITIES



BONDS

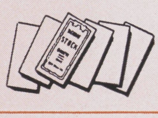
$475,563,000

EQUIPMENT OBLIGATIONS $90,041,040

CURRENT LIABILITIES $134,470,739

ALL OTHER LIABILITIES $193,995,639

CAPITAL STOCK OUTSTANDING $562,332,426



SURPLUS $275,142,235

WE OWE: $894,070,418

CAPITAL STOCK AND SURPLUS: $837,474,661

CONDENSED GENERAL BALANCE SHEET

DECEMBER 31, 1947 AND 1946

THE NEW YORK CENTRAL RAILROAD COMPANY

ASSETS

	1947	1946
INVESTMENTS in Road, Equipment and Other Properties		
Road	$ 722,758,240	$ 715,213,430
Equipment	504,809,380	483,355,897
Improvements on leased property	126,929,227	128,001,102
Miscellaneous physical property less depreciation	33,145,878	34,597,363
Acquisition adjustment, donations and grants	*Cr.* 8,590,908	*Cr.* 8,598,938
Depreciation and amortization of defense projects — road and equipment	*Cr.*361,086,195	*Cr.*348,838,130
	$1,017,965,622	$1,003,730,724
INVESTMENTS in Affiliated and Other Companies		
Affiliated companies: (Stocks, bonds, notes and advances)	$ 417,016,053	$ 407,130,940
Other investments: (Stocks, bonds, notes and advances)	47,391,404	47,257,616
	$ 464,407,457	$ 454,388,556
CURRENT ASSETS		
Cash, special deposits and temporary investments	$ 100,887,240	$ 124,176,744
Materials and supplies	56,709,578	41,726,568
Other current assets	57,562,440	50,138,148
	$ 215,159,258	$ 216,041,460
ALL OTHER ASSETS		
Capital and other reserves	$ 15,901,787	$ 7,359,457
Deferred assets and unadjusted debits	18,110,955	16,970,364
	$ 34,012,742	$ 24,329,821
Total	$1,731,545,079	$1,698,490,561

LIABILITIES

	1947	1946
BONDS		
Mortgage bonds	$ 470,063,000	$ 479,572,000
Debenture bonds	5,500,000	5,500,000
	$ 475,563,000	$ 485,072,000
EQUIPMENT OBLIGATIONS	$ 90,041,040	$ 71,629,561
CURRENT LIABILITIES *(Note A)*	$ 134,470,739	$ 114,028,710
ALL OTHER LIABILITIES		
Amounts payable to affiliated companies *(Note B)*	$ 43,238,047	$ 45,416,529
Deferred liabilities and other unadjusted credits	144,428,386	142,449,362
Insurance reserves	6,329,206	5,940,252
	$ 193,995,639	$ 193,806,143
CAPITAL STOCK, OUTSTANDING (6,447,410 Shares without Par Value)	$ 562,332,426	$ 562,332,426
SURPLUS		
Unearned surplus	$ 35,213	$ 25,838
Earned surplus appropriated	9,479,398	8,565,143
Earned surplus unappropriated *(Note C)*	265,627,624	263,030,740
	$ 275,142,235	$ 271,621,721
Total	$1,731,545,079	$1,698,490,561

Note A—After deduction in 1946 of $23,254,712, representing estimated refunds of Federal taxes paid in prior years.
Note B—Comprises liability to lessor companies for which the New York Central is obligated to make settlement.
Note C—Includes $29,405,935 transferred from earned surplus accounts of companies consolidated January 1, 1915.

This balance sheet does not include the assets or liabilities of lessor, affiliated, terminal or other companies, nor the liability of The New York Central Railroad Company as guarantor or under leases or otherwise with respect to the securities or obligations of other companies.

INCOME ACCOUNT

THE NEW YORK CENTRAL RAILROAD COMPANY

	1947	1946
RAILWAY OPERATING REVENUES:		
Freight	$496,734,880	$409,199,396
Passenger	133,187,777	148,109,502
Mail	20,618,542	15,150,635
Express	10,717,836	2,924,923
All other	42,081,492	41,400,299
Total	$703,340,527	$616,784,755
RAILWAY OPERATING EXPENSES:		
Maintenance of way and structures *(Note A)*	$ 96,276,653	$ 92,676,937
Maintenance of equipment *(Note B)*	145,933,566	132,566,900
Traffic	11,177,010	10,456,569
Transportation	319,631,654	290,364,318
General and all other	33,517,974	32,286,769
Total	$606,536,857	$558,351,493
NET REVENUE FROM RAILWAY OPERATIONS	$ 96,803,670	$ 58,433,262
Operating ratio	86.24	90.53
Railway tax accruals	52,435,502	23,953,409
Net debits for equipment and joint facility rents	19,848,607	19,032,634
NET RAILWAY OPERATING INCOME	$ 24,519,561	$ 15,447,219
Other income: (*Note C*)		
Miscellaneous rent income	$ 4,279,936	$ 4,086,857
Separately operated properties	1,501,183	2,493
Dividend income	6,692,465	4,056,573
Income from funded securities	4,354,558	4,164,294
Miscellaneous	4,389,251	4,719,740
Total	$ 21,217,393	$ 17,029,957
TOTAL INCOME	$ 45,736,954	$ 32,477,176
Miscellaneous deductions from income	1,911,940	1,967,705
Income available for fixed charges	$ 43,825,014	$ 30,509,471
Fixed Charges:		
Rent for leased roads and equipment (*Note C*)	$ 19,575,066	$ 18,998,372
Interest on funded debt	21,102,395	21,273,929
Interest on unfunded debt	750,973	618,889
Amortization of discount on funded debt	90,498	67,549
Total	$ 41,518,932	$ 40,958,739
NET INCOME TRANSFERRED TO EARNED SURPLUS	$ 2,306,082	$ 10,449,268*

Note A — Includes amortization and depreciation on roadway property	$ 10,208,066	$ 10,146,560
Note B — Includes amortization and depreciation of equipment	$ 21,976,376	$ 20,464,425
Also includes depreciation of power-plant machinery	$ 890,931	$ 860,008
Note C — Included in other income and rent for leased roads are certain inter-company transactions representing credits and corresponding debits amounting to	$ 3,251,961	$ 3,070,482
Other income also includes interest and dividends amounting to received on securities of and advances to terminal and other companies whose properties are jointly used by this Company, as to the major portion of which a like amount was paid to those companies as rental and included in joint facility rents.	$ 1,456,715	$ 1,455,980

*Deficit

EARNED SURPLUS ACCOUNT

THE NEW YORK CENTRAL RAILROAD COMPANY

BALANCE TO CREDIT OF EARNED SURPLUS JANUARY 1, 1947		$263,030,740
ADDITIONS:		
Net income for the year 1947	$2,306,082	
Excess over cost of principal amount of bonds acquired	2,038,594	
Profit from sale of property	279,314	
Sundry items	962,270	5,586,260
		$268,617,000
DEDUCTIONS:		
Surplus appropriated for investment in physical property	$ 914,255	
Prior service accrual — Funded Contributory Retirement Plan	1,645,063	
Retirement of road property	583,144	
Service loss on leased equipment not covered by depreciation	*Cr.* 221,928	
Sundry items	68,842	2,989,376
BALANCE TO CREDIT OF EARNED SURPLUS DECEMBER 31, 1947		$265,627,624

MATURING OBLIGATIONS

Of the total funded debt of The New York Central Railroad Company and its lessor companies outstanding on December 31, 1947, the following amounts, including amounts due the State of New York in connection with certain grade crossing eliminations, mature within the succeeding ten years.

Year	Equipment Obligations	Bonds and Miscellaneous	Total
1948	$13,405,280	$ 558,372	$ 13,963,652
1949	13,405,280	558,372	13,963,652
1950	12,505,280	4,616,372	17,121,652
1951	11,465,280	5,910,372	17,375,652
1952	8,875,280	14,025,372	22,900,652
1953	8,504,640	3,360,372	11,865,012
1954	7,890,000	558,372	8,448,372
1955	6,340,000	558,372	6,898,372
1956	4,710,000	17,851,372	22,561,372
1957	2,940,000	2,058,372	4,998,372
Total	$90,041,040	$50,055,720	$140,096,760

DIRECTORS

Harold S. Vanderbilt	New York	James A. Farley	New York
Robert F. Loree	New York	Carl P. Dennett	Boston
Edward B. Greene	Cleveland	Lawrence N. Murray	Pittsburgh
George Whitney	New York	Sidney C. Murray	Chicago
William E. Levis	Toledo	Gustav Metzman	New York
Malcolm P. Aldrich	New York	Alexander C. Nagle	New York
Raymond D. Starbuck	New York	William H. Vanderbilt	Williamstown
Joseph M. O'Mahoney	New York		

OFFICERS

Gustav Metzman	*President*	New York
Richard E. Dougherty	*Vice President—Assistant to President*	New York
Jesse L. McKee	*Vice President—Assistant to President*	Chicago
Martin J Alger	*Vice President, Traffic*	New York
Jacob Aronson	*Vice President and General Counsel*	New York
Lawrence W. Horning	*Vice President, Personnel and Public Relations*	New York
Frank J. Jerome	*Vice President, Operations and Maintenance*	New York
Willard F. Place	*Vice President, Finance*	New York
John J. Brinkworth	*Vice President*	Chicago
Fred A. Dawson	*Vice President*	New York
Carl L. Jellinghaus	*Vice President*	Detroit
Joseph M. O'Mahoney	*Secretary*	New York
Gustave H. Howe	*Treasurer*	New York
Edward A. Clancy	*Comptroller*	New York

NEW YORK
CENTRAL
SYSTEM